



**KOUKAMMA MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENT**  
**FOR THE YEAR ENDED 30 JUNE**  
**2018**

**KOU-KAMMA MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2018**

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**KOU-KAMMA MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
*for the year ended 30 June 2018*

**GENERAL INFORMATION**

**MAYOR / SPEAKER**

Cllr. Vuso M.S

**OTHER MEMBERS OF THE COUNCIL**

Cllr. Bernardis P.	Resigned 31 October 2017
Cllr. Goliath G.G.M.	
Cllr. Herman F.E.	
Cllr. Jansen J.	Appointed 15 May 2018
Cllr. Krige R.	
Cllr. Le Roux Y.C.	Resigned 30 September 2017
Cllr. Plaatjies J.	
Cllr. Pullen H.P.	
Cllr. Reeders C.	Appointed 20 October 2017
Cllr. Smith K.	
Cllr. Strydom F.	
Cllr. Yake F.J.	

**ADDRESS OF THE KOU-KAMMA LOCAL MUNICIPALITY**

5 Keet Street	Private Bag X11
Kareedouw	Kareedouw
3170	3170

**GRADING OF THE LOCAL AUTHORITY**

Grade 1

**EXTERNAL AUDITORS**

Office of the Auditor General (East London)  
69 Frere Road  
Vincent  
East London

**PRIMARY BANKER**

ABSA Bank Ltd

**Accounting Officer**

Kate P.M.

**KOU-KAMMA MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2018

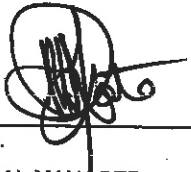
**GENERAL INFORMATION**

**Municipal Manager**  
Kate P.M.

**Chief Financial Officer**  
Venter N.A.

**APPROVAL OF FINANCIAL STATEMENTS**

I am responsible for the preparation of these Annual Financial Statements, which are set out on pages 13 to 57, in terms of Section 126(1) of the Municipal Finance Management Act (Act No 56 of 2003) and which I have signed on behalf of the municipality.

  
\_\_\_\_\_  
Kate P.M.  
MUNICIPAL MANAGER

Date: 29/08/2018

  
\_\_\_\_\_  
Venter N.A.  
CHIEF FINANCIAL OFFICER

Date: 29/8/2018

**KOU-KAMMA MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
**for the year ended 30 June 2018**

**MEMBERS OF THE COUNCIL**

**MAYOR / SPEAKER**

Cllr. Vuso MS

**COUNCILLORS**

Cllr. Bernardis P.	Resigned 31 October 2017
Cllr. Goliath G.G.M.	
Cllr. Herman F.E.	
Cllr. Jansen J.	Appointed 15 May 2018
Cllr. Krige R.	
Cllr. Le Roux Y.C.	Resigned 30 September 2017
Cllr. Plaatjies J.	
Cllr. Pullen H.P.	
Cllr. Reeders C.	Appointed 20 October 2017
Cllr. Smith K.	
Cllr. Strydom F.	
Cllr. Yake F.J.	

**CERTIFICATION OF REMUNERATION OF COUNCILLORS**

I certify that the remuneration of Councillors and in-kind benefits are within the upper limits of the framework envisaged in Section 219 of the Constitution of the Republic of South Africa, 1996 read with the Remuneration of Public Office Bearers Act No.20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.



Kate P.M.  
MUNICIPAL MANAGER

29/08/2018  
Date

**KOU-KAMMA MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2018**

		Actual	
	Note	2018 R	2017 R
<b>ASSETS</b>			
<b>Current Assets</b>		<b>42,439,581</b>	<b>35,573,880</b>
Inventories	2	266,175	124,564
Receivables from Exchange Transactions	3	12,862,726	10,802,836
Receivables from Non-exchange Transactions	4	25,145,207	20,047,272
VAT Receivable	5	2,611,441	3,812,922.20
Cash and Cash Equivalents	6	1,484,723	713,695
Operating Lease Receivables	7	69,308	72,590
<b>Non-Current Assets</b>		<b>333,546,835</b>	<b>335,627,862</b>
Property, Plant and Equipment	8	308,347,157	310,223,046
Intangible Assets	9	152,544	139,094
Investment Property	10	25,047,135	25,265,723
<b>Total Assets</b>		<b>375,986,416</b>	<b>371,201,742</b>
<b>LIABILITIES</b>			
<b>Current Liabilities</b>		<b>28,766,952</b>	<b>40,522,581</b>
Consumer Deposits	11	104,588	104,588
Current Portion of Long-term Liabilities	15	613,464	328,573
Provisions	12	2,487,714	2,590,831
Payables from Exchange Transactions	13.1	23,739,036	34,799,816
Payables from Non Exchange Transactions	13.2	-	835,502
Unspent Conditional Grants and Receipts	14	1,822,150	1,863,270
<b>Non-Current Liabilities</b>		<b>5,101,485</b>	<b>4,937,639</b>
Employee Benefit Liabilities	15	3,708,095	3,602,107
Provisions	16	1,393,389	1,335,532
<b>Total Liabilities</b>		<b>33,868,437</b>	<b>45,460,220</b>
<b>Net Assets</b>		<b>342,117,977</b>	<b>325,741,522</b>
<b>NET ASSETS</b>		<b>342,117,977</b>	<b>325,741,520</b>
Accumulated Surplus	17	342,117,977	325,741,520
<b>Total Net Assets</b>		<b>342,117,977</b>	<b>325,741,520</b>

**KOU-KAMMA MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2018**

	Note	Actual	
		2018	2017
		R	R
<b>REVENUE</b>			
<b>Revenue from Non-exchange Transactions</b>			
Property Rates	18	15,727,232	16,256,133
Fines		9,496,358	5,123,359
Income for Agency Services	19	5,145,267	5,783,048
Government Grants and Subsidies Received	20	79,103,641	64,490,510
<b>Revenue from Exchange Transactions</b>			
Service Charges	21	25,211,323	26,471,237
Rental of Facilities and Equipment	22	333,697	379,728
Interest Earned - External Investments	23	213,530	72,506
Interest Earned - Outstanding Debtors	23	11,358,946	9,188,128
Other Revenue	24	934,212	3,667,029
Licences and Permits		-	18,143
Gain on disposal of Property, Plant and Equipment		-	334,264
<b>Total Revenue</b>		<b>147,524,206</b>	<b>131,784,085</b>
<b>EXPENDITURE</b>			
Employee Related Costs	25	(42,456,667)	(41,816,937)
Remuneration of Councillors	26	(3,433,216)	(3,123,213)
Depreciation and Amortisation	27	(18,505,169)	(17,493,137)
Bad debts		(31,544,610)	(19,604,897)
Repairs and Maintenance	33	(1,812,269)	(1,026,208)
Finance Costs	28	(1,071,441)	(1,961,355)
Bulk Purchases	29	(3,362,382)	(3,513,477)
Contracted Services	30	(4,794,120)	(2,713,777)
Grants and Subsidies Paid	31	(8,098,228)	(16,702,372)
General Expenses	32	(16,046,789)	(14,641,170)
Loss on Disposal of Property, Plant and Equipment		(22,858)	-
<b>Total Expenditure</b>		<b>(131,147,751)</b>	<b>(122,596,542)</b>
<b>SURPLUS FOR THE YEAR</b>		<b>16,376,456</b>	<b>9,187,543</b>



**KOU-KAMMA MUNICIPALITY**  
**STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2018**

Description	Note	Accumulated	Total
		Surplus / (Deficit)	
		R	R
<b>2017</b>			
Balance at 1 July 2016		300,791,258	300,791,258
Correction of prior period error	36	15,762,718	15,762,718
Restated balance at 1 July 2016		<u>316,553,977</u>	<u>316,553,977</u>
Surplus for the year		9,187,543	9,187,543
Balance at 30 June 2017		<u>325,741,520</u>	<u>325,741,520</u>
<b>2018</b>			
Restated balance at 1 July 2017		325,741,520	325,741,520
Surplus for the year		16,376,456	16,376,456
Balance at 30 June 2018		<u>342,117,976</u>	<u>342,117,976</u>



**KOU-KAMMA MUNICIPALITY**  
**CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2018**

	<b>Note</b>	<b>Actual</b>	
		<b>2018</b>	<b>2017</b>
		<b>R</b>	<b>R</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
<b>Receipts</b>			
Sale of goods and services		17,768,070	16,890,918
Government Grant and Subsidies	<b>20</b>	70,479,313	62,383,060
Licence and permits		-	18,143
Interest Received	<b>23</b>	213,530	72,506
Other Receipts		6,499,128	9,829,805
<b>Payments</b>			
Employee Related Costs	<b>25</b>	(42,456,667)	(41,856,114)
Remuneration of Councillors	<b>26</b>	(3,433,216)	(3,123,213)
Interest Paid	<b>28</b>	(1,071,441)	(193,842)
Suppliers Paid		(30,770,760)	(29,339,797)
<b>NET CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>34</b>	<b>17,227,957</b>	<b>14,681,466</b>
<b>CASH FLOWS UTILISED FROM INVESTING ACTIVITIES</b>			
Purchase of Property, Plant and Equipment	<b>7</b>	(16,440,901)	(15,790,962)
Purchase of Intangible Assets	<b>8</b>	-	(14,032)
Proceeds on Disposal of Property, Plant and Equipment		-	-
<b>NET CASH FLOWS FROM INVESTING ACTIVITIES</b>		<b>(16,440,901)</b>	<b>(15,804,994)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Short term loan		-	835,502
<b>NET CASH FLOWS FROM FINANCING ACTIVITIES</b>		<b>-</b>	<b>835,502</b>
<b>NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENT</b>	<b>6</b>	<b>787,055</b>	<b>(288,026)</b>
Cash and Cash Equivalents at Beginning of Period		713,695	1,001,722
Cash and Cash Equivalents at End of Period		1,484,723	713,695

**KOU-KAMMA MUNICIPALITY**  
**STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS**  
as at 30 June 2018

Description	Original Budget	Budget Adjustments (i.e. s28 & s31 Of The MFMA)	Final Budget	Actual Income & Expenditure	Unauthorised Expenditure	Variance	Variance percentage	Actual Income As % Of Final Budget	Actual Outcome As % Of Original Budget	Notes
	R	R	R	R	R	R		R	R	
<b>Financial Performance</b>										
Property Rates	12,018,927	1,846,649	13,865,576	15,727,232		1,861,656	13%	113%	131%	
Service Charges	19,037,278	(1,317,934)	17,719,344	25,211,323		7,491,979	42%	142%	132%	
Rental of Facilities and Equipment	381,712	-	381,712	333,697		(48,015)	-13%	87%	87%	N1
Investment Revenue	34,632	114,000	148,632	213,530		64,898	44%	144%	617%	N2
Interest earned/outstanding debtors	9,460,525	1,558,562	11,019,088	11,358,946		339,858	3%	103%	120%	
Fines	3,000,000	-	3,000,000	9,496,358		6,496,358	217%	317%	317%	N3
Income for the agency fees	2,743,421	-	2,743,421	5,145,267		2,401,846	88%	188%	188%	N4
Government grants and subsidies	67,262,000	16,619,995	83,881,995	79,103,641		(4,778,354)	-6%	94%	118%	
Other Own Revenue	6,790,177	1,234,739	8,024,916	934,212		(7,090,704)	-88%	12%	14%	N5
Gain on disposal of asset	75,000	-	75,000							
<b>Total Revenue (Excluding Capital Transfers &amp; Contributions)</b>	<b>120,803,671</b>	<b>20,056,012</b>	<b>140,859,683</b>	<b>147,524,206</b>		<b>6,664,523</b>	<b>5%</b>	<b>105%</b>	<b>122%</b>	
Employee Costs	(47,155,363)	(422,665)	(47,578,028)	(42,456,667)		5,121,361	-11%	89%	80%	
Remuneration Of Councilors	(3,215,461)	(3,78,977)	(3,594,438)	(3,433,216)		161,221	-4%	96%	107%	
Debt Impairment	(10,344,672)	-	(10,344,672)	(31,544,810)		(21,199,938)	205%	305%	305%	N6
Depreciation & Asset Impairment	(23,554,134)	-	(23,554,134)	(18,505,169)		5,048,965	-21%	79%	79%	
Repairs and Maintenance	(6,934,787)	1,909,385	(5,025,402)	(1,812,269)		3,213,133	-64%	36%	26%	N9
Finance Charges	(825,000)	(250,000)	(1,075,000)	(1,071,441)		3,559	0%	100%	130%	N7
Materials & Bulk Purchases	(4,803,104)	-	(4,803,104)	(3,362,382)		1,440,722	-30%	70%	70%	N8
Contracted Services	(6,402,315)	(5,582,518)	(11,984,832)	(4,794,120)		7,190,712	-60%	40%	75%	N10
Other Expenditures	(20,678,079)	1,914,983	(18,764,086)	(24,145,017)		(5,380,931)	29%	129%	117%	N12
Loss on disposal of asset				(22,858)						
<b>Total Expenditure</b>	<b>(123,913,914)</b>	<b>(2,809,782)</b>	<b>(126,723,696)</b>	<b>(131,147,750)</b>		<b>(4,424,056)</b>	<b>3%</b>	<b>103%</b>	<b>106%</b>	
<b>Surplus/(Deficit)</b>	<b>(3,110,243)</b>	<b>17,246,230</b>	<b>14,135,987</b>	<b>16,376,456</b>		<b>11,088,578</b>	<b>78%</b>	<b>116%</b>	<b>527%</b>	
<b>Capital Expenditure</b>	<b>19,943,892</b>	<b>3,358,708</b>	<b>23,302,600</b>	<b>16,440,901</b>		<b>(6,861,699)</b>	<b>-29%</b>	<b>71%</b>	<b>82%</b>	

**Notes and Legends:**

- N1 Rental of facilities - as result of completion of upgrades to community halls, rental income was higher than anticipated.
- N2 Interest earned- ex Interest earned- external investments: The municipality had less short term investments than anticipated during the 2016/17 financial year.
- N3 Fines - the turnaround time of fines issues is long. In addition to this there were months during the year, when no overtime was paid as a result traffic fines issued decreased. In addition to this the contract of the Traffic service provider ended towards the end of the financial year and a new one has not been appointed at year end. This had a negative impact on the collection of fines.
- N4 Income from Agency services - additional income that should have been received from Sarah Baartman District Municipality for the provision of fire services as per agreement rolled over to the 2017/18 financial year
- N5 Other Revenue - the municipality budgeted for cash recovery from outstanding debtors, this project however only came into full effect during June 2017. Results will be able to be measured during the 2017/18 financial year.
- N6 Debt Impairment - As result of the 50/50 revenue collection program that was launched during the 2016/17 financial year, prior debt was written off.
- N7 Finance charges - as a result of cashflow difficulties, the municipality could not settle all debt within 30 days, which resulted in interest being charged by suppliers
- N8 -N12 As a result of cash flow challenges, operational expenditure was kept to a minimum.

**KOUKAMMA MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**1. BASIS OF PRESENTATION**

The financial statements have been prepared in accordance with the effective Standards of Generally Recognised Accounting Practice (GRAP) listed below including any interpretations, guidelines and directives issued by the Accounting Standards Board and the Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

These annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise. They are presented in South African Rand.

A summary of the significant accounting policies are disclosed below.

These accounting policies are consistent with the previous period, except for the changes set out in note 1.6 standards and interpretations effective and adopted in the current year.

**1. 1 CHANGES IN ACCOUNTING POLICY AND COMPARABILITY**

Accounting Policies have been consistently applied, except where otherwise indicated below.

The details of any resulting changes in accounting policy and comparative restatements are set out below.

The municipality changes an accounting policy only if the following instances:

- (a) is required by a Standard of GRAP; or
- (b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the municipality's financial position, financial performance or cash flow.

**1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS**

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical judgements, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

**1. 2. 1 Revenue Recognition**

Accounting Policy on *Revenue from Exchange Transactions* and Accounting Policy on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9 and GRAP 23. In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. Also of importance is the estimation process involved in initially measuring revenue at the fair value thereof. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate. At the time of initial recognition it is inappropriate to assume that the collectability of amounts owing by individual recipients of goods or services will not occur, because the municipality has an obligation to collect all revenue.

**1. 2. 2 Financial assets and liabilities**

The classification of financial assets and liabilities, into categories, is based on judgement by management. Accounting Policy on *Financial Assets Classification* and Accounting Policy on *Financial Liabilities Classification* describe the factors and criteria considered by the management of the municipality in the classification of financial assets and liabilities.

In making the above-mentioned judgement, management considered the definition and recognition criteria for the classification of financial instruments as set out in GRAP 104: *Financial Instruments*.

**1. 2. 3 Impairment of Financial Assets**

**KOUKAMMA MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

Accounting Policy on *Impairment of Financial Assets* describes the process followed to determine the value by which financial assets should be impaired. In making the estimation of the impairment, the management of the municipality considered the detailed criteria of impairment of financial assets as set out in GRAP 104: *Financial Instruments*, and used its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of the reporting period. The management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness.

This was performed per service-identifiable categories across all classes of debtors.

**KOUKAMMA MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**1. BASIS OF PRESENTATION (Continued)**

**1. 2 CRITICAL JUDGEMENTS, ESTIMATIONS AND ASSUMPTIONS (Continued)**

**1. 2. 4 Useful lives of Property, Plant and Equipment, Intangible assets and Investment property**

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimate useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives of assets are based on management's estimation. Management considered the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

**1. 2. 5 Impairment: Write down of Property, Plant and Equipment and Inventories**

Accounting Policy on *PPE - Impairment of assets* and Accounting Policy on *Intangible assets - Subsequent Measurement, Amortisation and Impairment* and Accounting Policy on *Inventory - Subsequent measurement* describes the conditions under which non-financial assets are tested for potential impairment losses by the management of the municipality. Significant estimates and judgements are made relating to PPE impairment testing, Intangible assets impairment testing, write down of Inventories to the lowest of Cost and Net Realisable Values (NRV) and whether assets should be written down to current replacement cost.

In making the above-mentioned estimates and judgement, management considered the subsequent measurement criteria and indicators of potential impairment losses as set out in GRAP 21: Impairment of Non-Cash generating Assets and GRAP 26: Impairment of Cash generating Assets. In particular, the calculation of the recoverable service amount for PPE and intangible assets and the NRV for inventories involves significant judgement by management. During the year no impairments were made to PPE, intangible assets or inventory.

**1. 2. 6 Water Inventory**

The estimation of the water stock in the reservoirs is based on the measurement of water after the depth of water in the reservoirs have been determined, which is then converted into volumes based on the total capacity of the reservoir.

**1. 2. 7 Defined Benefit Plan Liabilities**

The municipality obtains actuarial valuations of its defined benefit plan liabilities. The defined benefit obligations of the municipality that were identified are Post-retirement Health Benefit Obligations and Long-service Awards. The estimated liabilities are recorded in accordance with the requirements of GRAP 25. Details of the liabilities and the key assumptions made by the actuaries in estimating the liabilities are provided in the notes to the Annual Financial Statements.

**1. 2. 8 Provisions and contingent liabilities**

The Municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost. Additional disclosure of these estimates of provisions are included in Note 16 Provisions. A valuation report is prepared annually by the Province of the Eastern Cape Local Government and Traditional Affairs Department. This report is an effect to ensure that Kou-kamma Local Municipality complies with the Waste Act and the Generally Recognised Accounting Practice (GRAP) 17 and 19 requirements and standards. GRAP 17 requires the cost of rehabilitation of landfill sites to be capitalised as property, plant and equipment and within GRAP 17 the interest of this report is in the depreciation rate of the sites. GRAP 19 requires for costs of rehabilitation of landfill sites to be provided for.

**1. 2. 9 Budget Information**

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in the notes to the annual financial statements.

**1. 3 PRESENTATION CURRENCY**

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand, which is the municipality's functional currency.

**1. 4 GOING CONCERN ASSUMPTION**

The Annual Financial Statements have been prepared on the assumption that the municipality will continue to operate as a going concern for at least the next 12 months.

**KOUKAMMA MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

**1. 5 OFFSETTING**

Assets, liabilities, revenues and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

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**1. BASIS OF PRESENTATION (Continued)**

**New Standards and Interpretations**

**1. 6 Standards and interpretations effective and adopted in the current year**

**GRAP 1: Interpretation of GRAP: Applying the Probability Test on Initial Recognition of Exchange Revenue**

An municipality assesses the probability of each transaction on an individual basis when it occurs. Entities shall not assess the probability on an overall level based on the payment history of recipients of the service in general when the probability of revenue is assessed at initial recognition. The full amount of revenue will be recognised at initial recognition. Assessing impairment is an event that takes place subsequently to initial recognition. Such impairment is an expense. Revenue is not reduced by this expense. The effective date of the interpretation is for years beginning on or after 01 April 2013.

**GRAP 1 (as revised 2010): Presentation of Financial Statements**

Additional disclosure requirements have been added regarding the following areas: assets and liabilities included in disposal groups classified as held for sale, biological assets, deferred tax assets (liabilities), tax expense, post-tax surplus or deficit and the use of transitions provision in the accounting policy. All amendments to be applied retrospectively. The effective date of the amendment is for years beginning on or after 01 April 2013.

**GRAP 3 (as revised 2010): Accounting policies, Changes in Accounting Estimates and Errors**

The revision resulted in various terminology and definition changes. Paragraphs added to Changes in accounting policies A change from one basis of accounting to another basis of accounting is a change in accounting policy. A change in the accounting treatment recognition or measurement of a transaction, event or condition within a basis of accounting is regarded as a change in accounting policy.

Selection of accounting policies: The reference to the Accounting Practices Committee (APC) of SAICA has been deleted from paragraph .11 on the basis that it is not a standard setter and that entities would consider information from a wide range of sources in formulating an accounting policy and not just the pronouncements of the APC. Commentary on the selection of benchmark and alternative accounting policies has been deleted. The effective date of the amendment is for years beginning on or after 01 April 2013.

**GRAP 9 (as revised 2010): Revenue from Exchange Transactions**

The revision resulted in various terminology and definition changes. Dividends or similar distributions declared from pre-acquisition surpluses: Paragraph .36 has been amended to encompass not only securities, but any contributed capital. Various amendments deletions and additions to examples included in the appendix. The effective date of the amendment is for years beginning on or after 01 April 2013.

**GRAP 12 (as revised 2010): Inventories**

Cost formulas: Paragraph .34 was amended and .35 was added to separate the principle from the exception when applying the cost formula for inventories with a similar nature and use to the municipality.

Recognition as an expense: Where reference has been made to 'net realisable value', 'current replacement cost' has been added. Fair value measurement: The appendix on how to determine fair value has been deleted. All amendments to be applied retrospectively. The effective date of the amendment is for years beginning on or after 01 April 2013.

**GRAP 13 (as revised 2010): Leases**

Paragraph .04 has been included to clarify that this Standard does not apply to lease agreements to explore for or use natural resources such as oil, gas, timber, metals and other mineral rights and licensing agreements for such items as motion picture films, videoc recordings, plays, manuscripts, patents and copyrights. Non-current Assets Held for Sale and Discontinued.

**Operations:**

Paragraph .51 has been added to clarify that finance lease assets classified as held for sale in accordance with the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations shall be accounted for in accordance with that Standard. Guidance on accounting for finance leases by lessors: The paragraph (previously paragraph .53) that provided guidance on the recognition of assets where entities enter into arrangements with private sector entities has been deleted as the Guideline on Accounting for Public Private Partnerships supersedes this guidance. Guidance on operating lease incentives and substance over legal form: The guidance included in the original text on substance over legal form has been deleted. Classification of leases on land and buildings elements: The guidance on the classification of land and buildings has been amended to ensure that the element of the lease relating to the land is classified as a finance lease where significant risks and rewards have been transferred, despite there being no transfer of title, consistent with the general classification guidance. All amendments to be applied retrospectively. The effective date of the amendment is for years beginning on or after 01 April 2013.



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**1. BASIS OF PRESENTATION (Continued)**

**1. 6 Standards and interpretations effective and adopted in the current year (Continued)**

**GRAP 16 (as revised 2010): Investment Property**

Recognition of investment property: Additional commentary has been included in paragraph .19 and .20 to explain paragraph .18 the outlines the recognition criteria for investment property. This Standard includes investment property under construction as it was inconsistent with the requirement that investment property being redeveloped was still within the scope of this Standard, but not the initial development. As a result paragraphs .10 and .11 were amended, paragraphs .60 and .61 inserted, and paragraphs .25 and .65(e) of the original text deleted.

The measurement principles were also amended accordingly to allow investment property under construction to be measured at cost if fair value cannot be measured reliably, until such time as the fair value can be measured reliably. Additional guidance has been included in the examples of investment property to clarify that the rentals earned do not have to be on a commercial basis or market related for the property to be classified as investment property. Disclosure: Entities are encouraged, rather than required, to disclose the fair value of investment property when this is materially different from the carrying amount. Amendments to be applied as follow: Paragraphs .10(e), .54, .59, .62 and .65 were amended, paragraphs .60 and .61 were added and paragraph .25 and .11 (d) of the original text (2004) was deleted by the improvements to GRAP issued in 1 April 2011. An municipality shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an municipality elects to apply these amendments earlier, it shall disclose this fact. The related amendment to paragraph .05 in the Standard of GRAP on Property, Plant and Equipment is also applied earlier. Any other amendments to the Standards of GRAP shall be applied retrospectively. The effective date of the amendment is for years beginning on or after 01 April 2013.

**GRAP 17 (as revised 2010): Property, Plant and Equipment**

Scope: The recognition and measurement of exploration and evaluation assets have been added to the scope exclusions. Investment properties under construction have been removed from the scope.

Measurement at initial recognition: Paragraph .23 and .24 have been amended to clarify that the guidance applicable to determine fair value for revalued assets applies equally to the initial measurement of items of property, plant and equipment at fair value. Depreciable amount and depreciation period: An additional paragraph has been added to clarify that reviewing the useful life of an asset on an annual basis does not

require the municipality to amend the previous estimate unless expectations differ from the previous estimate. Derecognition: The requirement to not classify gains from the disposal of property, plant and equipment as revenue, has been removed. Paragraph .79 has been added in line with the IASB Improvements Project to clarify that where assets are held for rental to others in the ordinary course of operations and the municipality subsequently sells the assets, the Standard of GRAP on Non-current Assets Held for Sale and Discontinued Operations does not apply. Rather, these assets are to be transferred and treated in accordance with the Standard of GRAP on Inventories. Disclosures: The required disclosures in paragraph .90 have been amended to encouraged disclosures. Added to the list of encourage disclosures is the fair value disclosure of assets where the cost model is used. The requirement to disclose the cost basis for revalued assets was removed. Amendments to be applied as follow: Paragraphs .05, .23 and .24 were amended and paragraph .79 was added by the improvements to GRAP issued in 1 April 2011. An municipality shall apply those amendments prospectively for annual periods beginning on or after 1 April 2011. If an municipality elects to apply these amendments earlier, it shall disclose this fact. Any other amendments to the Standards of GRAP shall be applied retrospectively. The effective date of the amendment is for years beginning on or after 01 April 2013.

**GRAP 25: Employee Benefits**

The objective of GRAP 25 is to prescribe the accounting and disclosure for employee benefits. The standard requires the municipality to recognise: a liability when an employee has provided service in exchange for employee benefits to be paid in the future; and an expense when the municipality consumes the economic benefits or service potential arising from service provided by an employee in exchange for employee benefits. The standard states the recognition, measurement and disclosure requirements of: short-term employee benefits; all short-term employee benefits; short-term compensated absences; bonus, incentive and performance related payments; post-employment benefits; Defined contribution plans; other long-term employee benefits; an termination benefits. The major difference between this this standard (GRAP 25) and IAS 19 is with regards to the treatment of actuarial gains and losses and past service costs. This standard requires the municipality to recognise all actuarial gains and losses and past service costs immediately in the statement of financial performance once occurred. The effective date of the standard is for years beginning on or after 01 April 2013.

The adoption of these amendment is not expected to impact on the results of the municipality, but has resulted in more disclosures in the annual financial statements.

**1. 7 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

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GRAP 18 Segment Reporting - issued February 2011, effective date 15 April 2015  
GRAP 20 Related Party Disclosures - issued June 2011  
GRAP 32 Service concession arrangements grantor

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**1. BASIS OF PRESENTATION (Continued)**

**1. 7 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE (Continued)**

All the other listed standards as listed above will only be effective when a date is announced by the Minister of Finance.

Where a standard of GRAP is approved as effective, it replaces the equivalent statement of International Public Sector Accounting Standards Board, International Financial Reporting Standards or Generally Accepted Accounting Principles. Where a standard of GRAP has been issued, but is not yet effective, the municipality may elect to apply the principles established in that standard in developing an appropriate accounting policy dealing with a particular section or event before applying paragraph 12 of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

**GRAP 18 - Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an municipality reports information to management. Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an municipality that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an municipality within a particular region.

Requires additional disclosures on the various segments of the business in a manner that is consistent with the information reported internally to management of the municipality. The precise impact of this on the financial statements of the Municipality is still being assessed but it is expected that this will only result in additional disclosures without affecting the underlying accounting. This standard does not yet have an effective date.

**GRAP 20 – Related party disclosures**

The effective date of the standard has not been determined yet. The standard of GRAP on related parties will replace the IPSAS 20 standard on related party disclosure currently used. No significant impact on the financial statements of the Municipality is expected.

**GRAP 32 Service concession arrangements grantor**

The standard prescribes the accounting treatment for service concession arrangements by the grantor, a public sector municipality. The effective date of the standard has not been determined yet.

No significant impact on the financial statements of the Municipality is expected.

**GRAP 108 Statutory receivables**

This standard prescribes the accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables. The effective date of the standard has not been determined yet.

**2. PROPERTY, PLANT AND EQUIPMENT**

**2. 1 Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, other than investment property, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

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Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, being the fair value of the asset at acquisition date. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

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**2. PROPERTY, PLANT AND EQUIPMENT (Continued)**

**2. 1 Initial Recognition (Continued)**

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**2. 2 Subsequent Measurement**

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or service potential associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment are measured at cost, less accumulated depreciation and accumulated impairment losses.

Subsequent to initial recognition, land and buildings are carried at cost less accumulated depreciation and impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

**2. 3 Depreciation**

Depreciation on assets other than land is calculated on cost, using the straight-line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately. The depreciation rates are based on the following estimated useful lives.

Depreciation only commences when the asset is available for use, unless stated otherwise.

The following is an indication of the maximum expected useful life of the assets:

	Years		Years
<b>Infrastructure</b>		<b>Buildings</b>	30
Roads and Paving	30		
Electricity	20 - 25	<b>Other</b>	
Water	20	Specialist Vehicles	20
Landfill Sites	7 - 50	Other Vehicles	7
Sewer	20 - 25	Office Equipment	10
<b>Community</b>		Furniture and Fittings	10
Recreational Facilities	20 -30	Specialised Plant and Equipment	15
Security	5	Other Plant and Equipment	5
Fencing	3 - 5		

The assets estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

**2. 4 Incomplete Construction Work**

Incomplete construction work is stated at historical cost. Depreciation and impairment (if applicable) only commences when the asset becomes available for use and transferred to the relevant asset class.

**2. 5 Finance Leases**

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Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the municipality or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

**2. 6 Land & Buildings**

Undeveloped Land is not depreciated as it is deemed to have an indefinite useful life, buildings and other structures situated on developed land are depreciated less their residual value over their useful life.

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**2. PROPERTY, PLANT AND EQUIPMENT (Continued)**

**2. 7 Infrastructure Assets**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

**2. 8 Derecognition of property, plant and equipment**

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss or disposal of property, plant and equipment.

The estimated useful lives and depreciation methods have been reviewed for the year ended 30 June 2017, and any changes therein have been implemented in accordance with the requirements of GRAP 17, GRAP 3.

**3. INTANGIBLE ASSETS**

Intangible assets are initially recognised at cost. The cost of an intangible asset is the purchase price and other costs attributable to bring the intangible asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible asset is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost. Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses. The cost of an intangible asset acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up. If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

**3. 1 Initial Recognition**

Identifiable non-monetary assets without physical substance are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

**3. 2 Subsequent Measurement, Amortisation and Impairment**

After initial recognition, an intangible asset is carried at its cost less any accumulated amortisation and any accumulated impairment losses.

Expenditure on an intangible item that was initially recognised as an expense shall not be recognised as part of the cost of an intangible asset at a later date.

In terms of GRAP 31, intangible assets are distinguished between internally generated intangible assets and other intangible assets. It is further distinguished between indefinite or finite useful lives. Amortisation is charged on a straight-line basis over the intangible assets' useful lives (when the intangible asset is available for use), which are estimated to be between 3 to 5 years, the residual value of assets with finite useful lives is zero, unless an active market exists. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised, however such intangible assets are subject to an annual impairment test. The useful lives per category of intangible assets are detailed below:

<b>Intangible asset</b>	<b>Years</b>
Software	2-10



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Intangible assets are annually tested for indicators of impairment, including intangible assets not yet available for use. Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

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**3. INTANGIBLE ASSETS (Continued)**

**3. 2 Subsequent Measurement, Amortisation and Impairment (Continued)**

The estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. An adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

**3. 3 Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**4. INVESTMENT PROPERTY**

**4. 1 Initial Recognition**

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

Investment property is recognized as an asset where, and only where:

- It is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality; and
- The cost or fair value of the investment property can be measured reliably.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment or Inventory as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another municipality under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc.; and
- Property held for strategic purposes or service delivery.

**4. 2 Subsequent Measurement**

**4. 2. 1 Subsequent Measurement - Cost Model**

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Investment property is measured using the cost model. Investment Property is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated on cost, using the straight-line method over the useful life of the property, which is estimated at 30 - 60 years. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The residual value of the investment properties been assumed to be zero.  
The land is not depreciated as it has an indefinite useful life.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

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**4. INVESTMENT PROPERTY (Continued)**

**4. 3 Derecognition**

An investment property shall be derecognised (removed from the statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

**5. IMPAIRMENT OF ASSETS**

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

**5. 1. Impairment of Cash generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable amount of the individual asset.

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arms length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

The recoverable amount of an asset or a cash-generating unit is the higher of its fair value less costs to sell and its value in use.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

**5. 2. Impairment of Non-Cash generating assets**

The municipality assesses at each reporting date whether there is any indication that an asset may be impaired. If any such indication exists, the municipality estimates the recoverable service amount of the asset.

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

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A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

The increased carrying amount of an asset attributable to a reversal of an impairment loss does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior periods.

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**5. IMPAIRMENT OF ASSETS (Continued)**

**5. 2. Impairment of Non-Cash generating assets (Continued)**

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

**6. FINANCIAL INSTRUMENTS**

The municipality has various types of financial instruments and these can be broadly categorised as either financial assets, financial liabilities or equity instruments in accordance with the substance of the contractual agreement. The municipality only recognises a financial instrument when it becomes a party to the contractual provisions of the instrument.

**Initial recognition**

Financial assets and financial liabilities are recognised on the municipality's Statement of Financial Position when the municipality becomes party to the contractual provisions of the instrument.

The municipality does not offset a financial asset and a financial liability unless a legally enforceable right to set off the recognised amounts currently exist; and the municipality intends either to settle on a net basis, or to realise the asset and settle the liability

**The effective interest rate method**

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

**Amortised cost**

Amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction for impairment or uncollectibility.

**6. 1 Financial Assets - Classification**

A financial asset is any asset that is cash or a contractual right to receive cash.

In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Financial assets at amortised cost

Financial assets at fair value

Financial assets at cost

The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Asset	Classification in terms of GRAP 104
Short-term Investment Deposits – Call	Financial instruments at Amortised Cost
Bank Balances and Cash	Financial Instruments at Amortised Cost
Consumer Debtors	Financial Instruments at Amortised Cost
Other Debtors	Financial Instruments at Amortised Cost

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets.

**6. 2 Financial Liabilities - Classification**

A financial liability is a contractual obligation to deliver cash or another financial asset to another municipality. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Type of Financial Liability	Classification in terms of GRAP 104
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Long-term Liabilities	Financial liabilities measured at amortised cost
Other Creditors	Financial liabilities measured at amortised cost
Trade Creditors	Financial liabilities measured at amortised cost
Accruals	Financial liabilities measured at amortised cost
Consumer Deposits	Financial liabilities measured at amortised cost
Retention	Financial liabilities measured at amortised cost

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.



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**6. FINANCIAL INSTRUMENTS (Continued)**

**6. 3 Initial and Subsequent Measurement**

When a financial asset or financial liability is recognised initially, an municipality shall measure it at its fair value plus, in the case of financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

**Financial Liabilities held at amortised cost**

Any other financial liabilities are classified as "Other financial liabilities" (All payables, loans and borrowings are classified as other liabilities) and are initially measured at fair value, net of transaction costs. Trade and other payables, interest bearing debt including finance lease liabilities, non-interest bearing debt and bank borrowings are subsequently measured at amortised cost using the effective interest rate method. Interest expense is recognised in the Statement of Financial Performance by applying the effective interest rate. Bank borrowings, consisting of interest-bearing short-term bank loans, repayable on demand and overdrafts are recorded at the proceeds received. Finance costs are accounted for using the accrual basis and are added to the carrying amount of the bank borrowing to the extent that they are not settled in the period that they arise.

**6. 4 Impairment of Financial Assets**

Financial assets, other than those at fair value, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 104.

**Financial assets carried at amortised cost**

Debtors encompasses long term debtors, consumer debtors and other debtors.

Initially Debtors are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Debtors within 12 months from the date of reporting are classified as current.

A provision for impairment of debtors is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The provision is made in accordance with GRAP 104 whereby the recoverability of debtors are assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The amount of the provision is the difference between the financial asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Cash flows relating to short-term receivables are not discounted where the effect of discounting is immaterial.

Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets carried at amortised cost with the exception of consumer debtors, where the carrying amount is reduced through the use of an allowance account. When a consumer debtor is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against revenue. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

The amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

**6. 5 Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire. The municipality recognises the difference between the carrying amount of the financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, in the Statement of Financial Performance.

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**7. INVENTORIES**

**7. 1 Initial Recognition**

Inventories comprise current assets held for sale and current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

**7. 2 Subsequent Measurement**

**Consumable stores, raw materials, work-in-progress and finished goods**

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value (net amount that an municipality expects to realise from the sale on inventory in the ordinary course of business). In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and net realisable value.

**Water inventory**

Water is regarded as inventory when the municipality has incurred purification costs on water obtained from natural resources (rain, rivers, springs, boreholes etc.). However, water in dams, that are filled by natural resources and that has not yet been treated, and is under the control of the municipality but can not be measured reliably as there is no cost attached to the water, and it is therefore not recognised in the statement of financial position. The basis of determining the cost of water purchased and not yet sold at statement of financial position date comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventory to its present location and condition, net of trade discounts and rebates. Water and purified effluent are valued by using the weighted average method, at the lowest of purified cost and net realisable value, insofar as it is stored and controlled in reservoirs at year-end.

**Redundant and slow-moving inventories**

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public auction. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised in the Statement of Financial Performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

**8. REVENUE RECOGNITION**

**8. 1 General**

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided. Revenue is recognised when it is probable that future economic benefits or service potential will flow to the municipality and these benefits can be measured reliably, except when specifically stated otherwise. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

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Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another municipality without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

**8. 1 Revenue from Exchange Transactions**

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered, the value of which approximates the consideration received or receivable.

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**8. REVENUE RECOGNITION (Continued)**

**8. 1. 1 Service Charges**

Service charges relating to sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity and water are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

**8. 1. 2 Pre-paid Electricity**

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. An adjustment for an unutilised portion is made at year-end based on the average consumption history.

**8. 1. 3 Finance Income**

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

Interest earned on unutilised conditional grants is allocated directly to the creditor: unutilised conditional grants, if the grant conditions indicate that interest is payable to the funder.

**8. 1. 4 Tariff Charges**

Revenue arising from the application of the approved tariff charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

**8. 1. 5 Sale of Goods**

Revenue from the sale of goods is recognised when all the following conditions have been met:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
- The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
- The amount of revenue can be measured reliably.
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

**8. 1. 6 Rentals**

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

**8. 2 Revenue from Non-exchange Transactions**

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another municipality without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

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An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.

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**8. 2 Revenue from Non-exchange Transactions (Continued)**

**8. 2. 1 Rates and Taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

**8. 2. 2 Fines**

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with management's best estimate of the probable inflows from the amounts not yet collected.

**8. REVENUE RECOGNITION (Continued)**

**8. 2 Revenue from Non-exchange Transactions (Continued)**

**8. 2. 3 Revenue from conditional grants, building and funding**

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs are recognised in the Statement of Financial Performance in the period in which they become receivable.

**8. 2. 4 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure**

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

**9. PROVISIONS**

Provisions are recognised when:

- The municipality has a present legal or constructive obligation as a result of past events;
- It is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation;
- and
- A reliable estimate can be made of the obligation

The best estimate of the expenditure required to settle the present obligation is the amount that an municipality would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgement of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by the associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - the unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

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**9. PROVISIONS (Continued)**

**Environmental rehabilitation provisions**

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of Financial Performance.

**10. EMPLOYEE BENEFITS**

**10. 1 Short-term Employee Benefits**

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

**10. EMPLOYEE BENEFITS (continued)**

**10. 1 Short-term Employee Benefits**

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

**10. 2 Post employment benefits**

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of certain retired staff according to the rules of the medical aid funds. Council pays 60% as contribution and the remaining 40% are paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – Employee benefits (using a discount rate applicable to high quality government bonds). The plan is unfunded.

**10. 2. 1 Post-retirement Health Care Benefits:**

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are recognised immediately in the Statement of Financial Performance.

Past-service costs are recognised immediately in expenditure, unless the changes to the pension plan are conditional on the employee remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

**10. 2. 2 Long-service Allowance**

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), entitled to a cash allowance, calculated in terms of the rules of the scheme. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.



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**11. LEASES**

**Lease Classification**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality.

Leases other than finance leases are classified as operating leases.

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**11. LEASES (Continued)**

**11. 1 The Municipality as Lessee**

**Finance leases**

Where the Municipality enters into a finance lease, Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured at lower of fair value of the asset or the PV of the minimum lease payments, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the implicit interest rate method.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to Property, Plant and Equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed in the Statement of Financial Performance when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

**Operating leases**

The municipality recognises operating lease rentals as an expense in the Statement of Financial Performance on a straight-line basis over the term of the relevant lease. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

**11. 2 The Municipality as Lessor**

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

**11. 3 Determining whether an arrangement contains a lease**

At inception of an arrangement, the Municipality determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Municipality the right to control the use of the underlying asset. At inception or upon reassessment of the arrangement, the Municipality separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Municipality concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Municipality's incremental borrowing rate.

**12. BORROWING COSTS**

Borrowing costs are expensed as they occur.

**13 GRANTS-IN-AID**

The municipality transfers money to individuals, organisations and other sectors of government from time to time. When making these transfers, the municipality does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the Statement of Financial Performance as expenses in the period that the events giving rise to the transfer occurred.

**14 VALUE ADDED TAX**

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The Municipality is registered with SARS for VAT on the payments basis, in accordance with Sec15(2)(a) of the Value-Added Tax Act No 89 of 1991. Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

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**15. UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is overspending on the total amount appropriated in the municipality's budget or overspending on the total amount appropriated for a vote or expenditure unrelated to the departmental or functional area or expenditure of money appropriated for a specific purpose or a grant by the municipality otherwise than in accordance with the conditions in terms of the Municipal Finance Management Act (Act No 56 of 2003). All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable. Irregular expenditure can only be treated as an asset (recoverable) if a responsible party to recover the money from is identified.

**16. IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as an expense in the Statement of Financial Performance in the period it occurred and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

**17. FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

**18. CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

Changes in accounting policies that are effected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to the notes to the Annual Financial Statements for details of changes in accounting policies where applicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to the notes to the Annual Financial Statements for details of corrections of errors recorded during the period under review where applicable.

**19. RELATED PARTIES**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Related parties include key management personnel such as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager and close family members of key management personnel.

**20. EVENTS AFTER THE REPORTING DATE**

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

**21. FOREIGN CURRENCIES**

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Transactions in foreign currencies are initially recorded at the prevailing exchange rate on the dates of the transactions. Monetary asset and liabilities denominated in such foreign currencies are retranslated at the rates prevailing at the reporting date. Exchange difference are included in the Statement of Financial Performance.

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**22. COMPARATIVE INFORMATION**

**22. 1 Current year comparatives:**

Budgeted amounts have, in accordance with GRAP 24, been provided to these financial statements and forms part of the Annual Financial Statements.

**22. 2 Prior year comparatives**

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified, unless a standard of GRAP does not require the restatements of comparative information. The nature and reasons for the reclassification are disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

**22 COMPARATIVE INFORMATION**

**22. 3 Budget Information**

The annual budget figures for the period 1 July 2016 to 30 June 2017 have been prepared and presented in accordance with the GRAP standard under the accrual basis of accounting for budgets approved by Council by nature classification, and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. Explanatory comment is provided in the notes to the annual financial statements giving firstly reasons for overall growth or decline in the budget and secondly motivations for over- or under spending on line items. The annual budget figures included in the financial statements are for the Municipality and do not include budget information relating to subsidiaries or associates. These figures are those approved by the Council at the beginning and during the year following a period of consultation with the public as part of the Integrated development plan.

**23. CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality. A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

**24. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES**

The costs of internal support services are transferred to the various services and departments to whom resources are made available.

**25. CAPITAL COMMITMENTS**

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.

**KOUKAMMA MUNICIPALITY**  
**ACCOUNTING POLICIES TO THE ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2018**

- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts are non-cancellable or only cancellable at significant cost contracts should relate to something other than the business of the municipality.

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**2018**  
**R**                      **2017**  
**R**

**1. GENERAL INFORMATION**

Kou-Kamma Municipality (the municipality) is a local government institution in the Eastern Cape, and is one of nine local municipalities under the jurisdiction of the Sarat Baartman District Municipality. The addresses of its registered office and principal place of business are disclosed under "General Information" included in the Annual Financial Statements and in the introduction of the Annual Report. The principal activities of the municipality are disclosed in the Annual Report and are prescribed by the Municipal Finance Management Act (MFMA).

**2. INVENTORIES**

Consumable Store	189,480	82,492
Water - at cost	76,695	42,073
<b>Total Inventories</b>	<b>266,175</b>	<b>124,564</b>

All inventory at year end is carried at cost.

**3. RECEIVABLES FROM EXCHANGE TRANSACTIONS**

Service Debtors:	107,542,627	84,011,130
Electricity	680,578	569,800
Refuse	17,420,052	13,831,088
Sewerage	38,005,268	29,958,284
Water	51,371,159	38,933,569
Other Receivables	65,549	718,389
Housing	27,910	675,509
Loan instalments	37,639	42,880
Less: Provision for Impairment	(94,679,900)	(73,208,295)
Electricity	(464,049)	(385,985)
Water	(36,332,197)	(28,574,310)
Sewerage	(27,085,324)	(22,263,809)
Refuse	(12,187,194)	(10,068,197)
Housing rental	(18,885)	(23,400)
Loan instalments	(30,338)	(28,411)
Interest	(18,561,914)	(11,864,183)
<b>Total Receivables from Exchange Transactions</b>	<b>12,862,726</b>	<b>10,802,836</b>

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

The fair value of debtors was determined after considering the standard terms and conditions of agreements entered into between the municipality and debtors as well as the current payment ratios of the municipality's debtors.

**3.1 Ageing of Receivables from Exchange Transactions**

<b>Electricity</b>		
Current (0 -30 days)	1,399	52,154
31 - 60 days	1,576	10,056
61 - 90 days	2,115	35,001
91 - 120 days	19,230	5,935
+120 days	516,057	380,051
Interest	140,202	86,586
Allowance for debt impairment	(464,049)	(385,985)
	<b>216,530</b>	<b>183,816</b>
<b>Water</b>		
Current (0 -30 days)	967,202	1,166,995
31 - 60 days	851,124	1,440,420
61 - 90 days	911,115	620,671
91 - 120 days	986,690	703,283
+120 days	38,203,291	29,109,435
Interest	9,451,738	5,892,760
Allowance for debt impairment	(36,332,197)	(28,574,310)
	<b>14,514,150</b>	<b>10,359,259</b>
<b>Sewerage</b>		
Current (0 -30 days)	504,805	493,504
31 - 60 days	487,066	909,879
61 - 90 days	468,278	451,820
91 - 120 days	454,099	448,691
+120 days	27,883,098	22,237,570
Interest	8,207,943	5,416,815
Allowance for debt impairment	(27,085,324)	(22,263,809)
	<b>10,824,944</b>	<b>7,694,476</b>
<b>Refuse</b>		
Current (0 -30 days)	243,903	238,347
31 - 60 days	230,192	442,572



**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	<b>2018</b>	<b>2017</b>
	<b>R</b>	<b>R</b>
61 - 90 days	225,914	215,573
91 - 120 days	219,631	216,555
+120 days	12,860,606	10,575,978
Interest	3,639,806	2,380,411
Allowance for debt impairment	<u>(12,187,194)</u>	<u>(10,068,197)</u>
	<u><b>-5,157,346</b></u>	<u><b>3,762,891</b></u>

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>3. RECEIVABLES FROM EXCHANGE TRANSACTIONS</b>		
<b>3.1 Ageing of Receivables from Exchange Transactions (continued)</b>		
<b>Housing rental</b>		
Current (0 -30 days)		
31 - 60 days	304	18,15
61 - 90 days	50	160,18
91 - 120 days	50	14,08
+120 days	50	14,08
Interest	19,120	403,17
Allowance for debt impairment	8,184	65,81
	<u>(18,885)</u>	<u>(23,40)</u>
	<b>(3,286)</b>	<b>652,10</b>
<b>Loan Instalments (and sundry)</b>		
Current (0 -30 days)	1,829	2,96
31 - 60 days	-	2,31
61 - 90 days	174	93
91 - 120 days	-	93
+120 days	31,883	35,40
Interest	3,754	32
Allowance for debt impairment	<u>(30,338)</u>	<u>(28,41)</u>
	<b>4,318</b>	<b>14,46</b>
<b>Interest: Exchange Transactions</b>		
Interest	21,451,626	13,842,72
Allowance for debt impairment	<u>(18,561,914)</u>	<u>(11,864,18)</u>
	<b>2,889,712</b>	<b>1,978,544</b>
<b>3.2 Reconciliation of the Provision for Impairment</b>		
Balance at beginning of year	(65,674,854)	(51,679,14)
(Allowance raised) / reversal of allowance	(20,976,293)	(14,239,032)
Amounts written off as uncollectable	1,319,070	243,319
<b>Balance at end of year</b>	<b>(85,332,078)</b>	<b>(65,674,854)</b>

Provision for impairment excludes VAT however Note 3.1 and 3.2 includes VAT.

**Receivables from exchange transactions past due but not impaired**

In determining the recoverability of debtors, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of debtors has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the Provision for Impairment.

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. Individually significant debtors have been considered for impairment, in terms of GRAP 104, however none were impaired. At 30 June 2018 R7 003 362 (2017:R6 275 646) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

1 month past due	2,318,941	1,972,125
2 months past due	2,342,211	2,965,425
3 months past due	2,342,211	1,338,096
	<u><b>7,003,362</b></u>	<u><b>6,275,646</b></u>

No debtors were pledged as security.

**3.3 Ageing of Impaired Receivables from Exchange Transactions**

<b>As at 30 June 2018</b>		<b>Past Due</b>			<b>Total</b>
<b>Current</b> 0 - 30 days		31 - 60 Days	61 - 90 Days	+ 90 Days	
<b>All Receivables:</b>					
Gross Balances	2,481,437	2,318,941	2,342,211	100,400,039	107,542,627
Less: Provision for impairment	-	-	-	(94,679,900)	(94,679,900)
<b>Net Balances</b>	<b>2,481,437</b>	<b>2,318,941</b>	<b>2,342,211</b>	<b>5,720,139</b>	<b>12,862,726</b>
<b>As at 30 June 2017</b>					
<b>Current</b> 0 - 30 days		31 - 60 Days	61 - 90 Days	+ 90 Days	<b>Total</b>
<b>All Receivables:</b>					
Gross Balances	2,662,151	3,623,966	1,983,858	75,741,155	84,011,130
Less: Provision for impairment	-	-	-	(73,208,295)	(73,208,295)
<b>Net Balances</b>	<b>2,662,151</b>	<b>3,623,966</b>	<b>1,983,858</b>	<b>2,532,861</b>	<b>10,802,835</b>

In determining the recoverability of a Receivable, the municipality considers any change in the credit quality of the Receivable from the date credit was initially granted up to the reporting date. Furthermore, the municipality has also placed a strong emphasis on verifying the indigent status of consumers. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers and is not concentrated in any particular sector or geographical area. Accordingly, management believe that there is no further credit provision required in excess of the Provision for Impairment.

No provision has been made in respect of government debt as these amounts are considered to be fully recoverable.

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS</b>		
<b>As at 30 June 2018</b>		
Assessment Rates Debtors		
Other receivables from non exchange transactions		
<b>Total Receivables from Non-exchange Transactions</b>		
	Gross Balances R	Provision for Impairment R
	R	Net Balances R
	36,125,900	(13,301,788)
	10,457,545	(8,136,450)
	<b>46,583,445</b>	<b>(21,438,238)</b>
		<b>25,145,207</b>
<b>As at 30 June 2017</b>		
Assessment Rates Debtors		
Other receivables from non exchange transactions		
<b>Total Receivables from Non-exchange Transactions</b>		
	Gross Balances R	Provision for Impairment R
	R	Net Balances R
	29,381,060	(11,321,620)
	5,960,033	(3,972,200)
	<b>35,341,092</b>	<b>(15,293,820)</b>
		<b>20,047,272</b>

None of the Receivables have been pledged as security for the municipality's financial liabilities.

The management of the municipality is of the opinion that the carrying value of Receivables approximate their fair values.

**Interest: Non-Exchange Transactions**

Interest	7,119,296	5,081,832
Allowance for debt impairment	(3,375,079)	(3,103,481)
	<b>3,744,217</b>	<b>1,978,351</b>

The fair value of Receivables was determined after considering the standard terms and conditions of agreements entered into between the municipality and National Provincial Departments as well as Other Debtors. The current payment ratio's of Other Debtors were also taken into account for fair value determination.

**4.1 Ageing of Receivables from Non-exchange Transactions**

<b>As at 30 June 2018</b>	Current 0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	Total
<b>Assessment Rates:</b>					
Gross Balances	731,684	659,252	601,211	34,133,752	36,125,900
Less: Provision for Impairment				(13,301,788)	(13,301,788)
<b>Net Balances</b>	<b>731,684</b>	<b>659,252</b>	<b>601,211</b>	<b>20,831,964</b>	<b>22,824,112</b>
<b>Other receivables from non exchange transactions:</b>					
Gross Balances	10,457,545	-	-	-	10,457,545
Less: Provision for Impairment	-	-	-	(8,136,450)	(8,136,450)
<b>Net Balances</b>	<b>10,457,545</b>	<b>-</b>	<b>-</b>	<b>8,136,450</b>	<b>2,321,095</b>
<b>As at 30 June 2017</b>	Current 0 - 30 days	31 - 60 Days	61 - 90 Days	+ 90 Days	Total
<b>Assessment Rates:</b>					
Gross Balances	(1,631,338)	(833,738)	552,863	31,293,272	29,381,060
Less: Provision for Impairment				(11,321,620)	(11,321,620)
<b>Net Balances</b>	<b>(1,631,338)</b>	<b>(833,738)</b>	<b>552,863</b>	<b>19,971,652</b>	<b>18,059,439</b>
<b>Other receivables from non exchange transactions:</b>					
Gross Balances	5,960,033	-	-	-	5,960,033
Less: Provision for Impairment	-	-	-	(3,972,200)	(3,972,200)
<b>Net Balances</b>	<b>5,960,033</b>	<b>-</b>	<b>-</b>	<b>(3,972,200)</b>	<b>1,987,833</b>
<b>Other receivables from non exchange transactions:</b>					
Current (0 - 30 days)				10,457,545	5,960,033
<b>Rates</b>				<b>10,457,545</b>	<b>5,960,033</b>
Current (0 - 30 days)				470,950	(1,862,193)
31 - 60 days				400,626	(1,060,979)
61 - 90 days				345,519	328,402
91 - 120 days				318,218	317,774
+120 days				27,471,291	26,576,222
Interest				7,119,296	5,081,832
Allowance for debt impairment				(13,301,788)	(8,218,135)
				<b>22,824,112</b>	<b>21,162,924</b>
<b>4.2 Reconciliation of Provision for Impairment</b>					
Balance at beginning of year				(8,218,135)	(13,226,763)
Impairment Losses recognised				(5,535,352)	795,544
Impairment Losses reversed				451,699	4,213,084
<b>Balance at end of year</b>				<b>(13,301,788)</b>	<b>(8,218,135)</b>

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018	2017
	R	R
The Provision for Impairment on debtors exists predominantly due to the possibility that these debts will not be recovered. Loans and receivables were assessed individually and grouped together as financial assets with similar credit risk characteristics and collectively assessed for impairment.		
The Provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and assessing the recoverability.		
No Provision for Impairment has been made in respect of government debt as these amounts are considered to be fully recoverable.		
Furthermore, no Provision for Impairment was calculated on Receivables from Non-Exchange Transactions other than Assessment Rates Debtors as the management is of the opinion that all other Receivables are recoverable within normal credit terms.		

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>4. RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS</b>		
<b>4.2 Reconciliation of Provision for Impairment (continued)</b>		
Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. Individually significant debtors have been considered for impairment, in terms of GRAP 104, however none were impaired. At 30 June 2018 R1 992 148 (2017: - R280 875) were past due but not impaired.		
1 month past due	731,684	-833,731
2 months past due	659,252	552,861
3 months past due	601,211	
	<u>1,992,148</u>	<u>(280,875)</u>

**5. VAT**

Vat Receivable / Payable

<u>2,611,441</u>	<u>3,812,921</u>
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VAT is payable on the cash basis. VAT is paid over to SARS only once payment is received from debtors.

**6. CASH AND CASH EQUIVALENTS**

Current investment deposits	66,916	1,007
Bank Accounts	1,417,187	712,068
<b>Total bank balances</b>	<u>1,484,103</u>	<u>713,075</u>
Cash on hand	620	620
<b>Total Bank, Cash and Cash Equivalents</b>	<u>1,484,723</u>	<u>713,695</u>

The Municipality has the following bank and investment deposit accounts:

Restrictions relate to unspent conditional grants, only if the condition of the grant is met can transfers from cash be done. Refer to note 20.

**Account number / description**

	<b>Bank statement balances</b>		<b>Cash book balances</b>	
	<b>30-Jun-18</b>	<b>30-Jun-17</b>	<b>30-Jun-18</b>	<b>30-Jun-17</b>
<b>Bank accounts</b>				
ABSA Bank Ltd - Current Account (Primary account) - 405 280 5864	966,737	593,380	1,028,468	671,440
ABSA Bank Ltd - Call Account - 90 7906 4583	247,113	23,866	251,359	29,425
ABSA Bank Ltd - Savings Account - 91 0220 9606	137,361	11,204	137,361	11,204
ABSA Bank Ltd - Savings Account - 91 9914 8641	66,916	1,007	66,916	1,007
<b>Total</b>	<u>1,418,126</u>	<u>629,456</u>	<u>1,484,103</u>	<u>713,075</u>

**6.1 Cash on hand**

Cash Floats and Advances

**Total Cash on hand in Cash Floats**

<u>620</u>	<u>620</u>
<u>620</u>	<u>620</u>

The municipality did not pledge any of its Cash and Cash Equivalents as collateral for its financial liabilities.

**7. OPERATING LEASE ASSET**

Operating leases are recognised on the straight line basis as per requirement of GRAP 13. In respect of non-cancellable leases the following asset has been recognised:

Balance at the beginning of the year	72,590	143,289
Movement in operating lease asset	(3,282)	(70,699)
<b>Balance at the end of the year</b>	<u>69,308</u>	<u>72,590</u>

# KOU-KAMMA MUNICIPALITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 8. PROPERTY, PLANT AND EQUIPMENT

	2018		2017	
	Cost	Accumulated depreciation and impairment	Carrying value	Cost
Land	4,903,499		4,903,499	4,903,499
Buildings	6,152,145	(2,727,492)	3,424,653	6,152,145
Other property, plant and equipment	12,053,844	(9,449,974)	2,603,870	12,043,695
Infrastructure	388,457,278	(147,929,760)	240,527,518	374,920,471
Community	56,351,777	(14,824,648)	41,527,128	54,552,463
Infrastructure - WIP	15,360,489		15,360,489	14,289,042
<b>Total</b>	<b>483,279,031</b>	<b>(174,931,874)</b>	<b>308,347,157</b>	<b>466,861,316</b>
				<b>(158,511,417)</b>
				<b>310,349,899</b>

### Reconciliation of property, plant and equipment - 2018

	Opening	Additions	Disposals	Transfers	Depreciation	Impairment	Total
Land	4,903,499						4,903,499
Buildings	3,625,697				(201,045)		3,424,652
Other property, plant and equipment	3,503,912		(450)	10,598	(910,191)		2,603,869
Infrastructure	242,279,852			13,536,807	(15,289,141)		240,527,518
Community	41,747,896			1,822,049	(2,020,081)	(22,736)	41,527,129
Infrastructure - WIP	14,289,042	16,440,901		(15,369,455)			15,360,489
<b>Total</b>	<b>310,349,899</b>	<b>16,440,901</b>	<b>(450)</b>	<b>0</b>	<b>(18,420,458)</b>	<b>(22,736)</b>	<b>308,347,157</b>

### Reconciliation of property, plant and equipment - 2017

	Opening	Additions	Disposals	Transfers	Depreciation	Impairment	Total
Land	4,903,499						4,903,499
Buildings	3,824,063				(198,365)		3,625,697
Other property, plant and equipment	4,162,165	26,924	(19,451)	179,454	(845,180)		3,503,912
Infrastructure	253,608,908	2,492,707		805,815	(14,627,578)		242,279,852
Community	21,390,422	(4,496)		22,077,648	(1,715,678)		41,747,896
Infrastructure - WIP	24,076,132	13,275,827		(23,062,917)			14,289,042
<b>Total</b>	<b>311,965,188</b>	<b>15,790,962</b>	<b>(19,451)</b>	<b>0</b>	<b>(17,386,801)</b>	<b>-</b>	<b>310,349,899</b>

**KOU-KAMMA MUNICIPALITY**

**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**9. INTANGIBLE ASSETS**

2018		2017	
Cost	Accumulated depreciation and impairment	Carrying value	Cost
781,950	(629,406)	152,544	781,950
			(563,190)
			218,760

Computer software

**Reconciliation of intangible assets - 2018**

Computer software

Opening	Additions	Disposals/ Amortisation	Total
218,760		(66,216)	152,544

**Reconciliation of intangible assets - 2017**

Computer software

Opening	Additions	Amortisation	Total
259,807	14,032	(55,080)	218,760

# KOU-KAMMA MUNICIPALITY

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018

### 10. INVESTMENT PROPERTY

2018			2017		
Cost	Accumulated depreciation and impairment	Carrying value	Cost	Accumulated depreciation and impairment	Carrying value
24,773,446		24,773,446	24,773,446		24,773,446
889,937	(596,248)	273,689	869,937	(577,978)	291,959
25,643,383	(596,248)	25,047,135	25,643,383	(577,978)	25,065,405

Investment property - Land  
Investment property - Buildings

### Reconciliation of investment property - 2018

Investment property - Land  
Investment property - Buildings

Opening	Disposal	Depreciation	Total
24,773,446			24,773,446
291,959		(18,270)	273,689
25,065,405	-	(18,270)	25,047,135

### Reconciliation of investment property - 2017

Investment property - Land  
Investment property - Buildings

Opening	Disposal	Depreciation	Total
24,773,446			24,773,446
310,842		(18,883)	291,959
25,084,288	-	(18,883)	25,065,405

### Details of property

No investment property has been given as security.

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>11. CONSUMER DEPOSITS</b>		
Electricity and Water	104,588	104,588
<b>Total Consumer Deposits</b>	<u>104,588</u>	<u>104,588</u>
<b>12. PROVISIONS</b>		
Balance at beginning of Year	2,590,831	1,880,900
Provision for bonuses	(103,117)	709,932
Performance bonus provision utilised	-	-
<b>Total Provisions</b>	<u>2,487,714</u>	<u>2,590,831</u>
Provisions raised include provision for workmen's compensation, performance bonuses and annual bonuses		
Included in the provision is an amount of R1 208 838 relating to workmen's compensation. This has been estimated based on a return of earning calculation based on current financial information.		
Provision for bonuses includes both performance bonuses of 57 employees and 13th cheque of all other employees. Provision for performance bonuses was made for the 2017/18 financial year. Performance bonuses for the 2015/16 and 2016/17 financial year has not been paid as at the end of the 2017/18 financial year. A decision was made not to pay any performance bonuses for the 2015/16 financial year. In addition to this reviews revealed that only one director will be eligible for a performance bonus for the 2016/17 financial year. The balance of all performance bonuses that will not be paid has been reversed during the 2017/18 financial year.		
<b>13. PAYABLES</b>		
<b>13.1 PAYABLES FROM EXCHANGE TRANSACTIONS</b>		
Trade payables	10,030,545	20,564,665
Other payables	3,036,010	2,738,498
Accrued Expenses	10,672,480	13,784,163
<b>Total Payables</b>	<u>23,739,035</u>	<u>37,087,327</u>
The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has financial risk policies in place to ensure that all payables are paid within the credit timeframe.		
The management of the municipality is of the opinion that the carrying value of Creditors approximate their fair values.		
The fair value of Creditors was determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties.		
<b>13.2 PAYABLES FROM NON EXCHANGE TRANSACTIONS</b>		
Short term loan	-	835,502
	<u>-</u>	<u>835,502</u>
<b>14. UNSPENT CONDITIONAL GRANTS AND RECEIPTS</b>		
DSRAC Library	568,681	427,507
Housing rectification	1,101,359	636,347
National - Department of Water Affairs Grant	-	364,798
Other Spheres of Government	-	434,619
DoE- INEP	154,110	-
<b>Total Unspent Conditional Grants</b>	<u>1,822,150</u>	<u>1,863,270</u>
Grants spent during the financial year is in accordance with the conditions thereof.		
<b>15. EMPLOYEE BENEFIT LIABILITIES</b>		
<b>Non current liability</b>		
Post-retirement Health Care Benefits Liability	2,343,363	2,079,860
Provision for Long Service Awards	1,684,712	1,522,227
	<u>3,708,095</u>	<u>3,602,107</u>
<b>Current portion of long term liability</b>		
Post-retirement Health Care Benefits Liability	201,984	184,592
Provision for Long Service Awards	411,480	143,981
	<u>613,464</u>	<u>328,573</u>
<b>15.1 Post-retirement Health Care Benefits Liability</b>		
Balance at beginning of Year	2,264,472	1,338,307
Net actuarial losses/gains	-25,230	842,887
Increase due to Discounting	180,717	108,786
Benefits paid	(184,592)	(125,506)
<b>Total Post-retirement Health Care Benefits Liability</b>	<u>2,245,367</u>	<u>2,264,472</u>
Transfer to Current Provisions	(201,984)	(184,592)
<b>Non-current portion of post-retirement Health Care Benefits Liability</b>	<u>2,043,383</u>	<u>2,079,880</u>
The assumptions used are based on statistics and market data as at 30 June 2018. The following assumptions, in line with GRAP 25, have been used.		
Assumptions used at the reporting date:		
<b>Discount rates used</b>		
General Inflation	5.13%	5.78%
Medical Inflation	5.66%	5.58%
Real rate (GAP)	7.16%	7.08%
	1.84%	1.59%

Discount rate assumption:

GRAP 25 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term of the obligation. Consequently, a discount rate of 8.13% per annum has been used. The corresponding index-linked yield at this term is 2.81%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2018.

Health care cost inflation assumption

**KOU-KAMMA MUNICIPALITY**  
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2018  
R

2017  
R

This assumption is required to reflect the estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective. A health care cost inflation rate of 7.16% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 5.66%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 1.84%.

**Future inflation assumption:**

At this duration the discount rate determined by using the Bond Exchange Zero Coupon Yield Curve as at 30 June 2018 is 5.13% per annum, and the yield on the inflation-linked bonds of a similar term was about 2.81% per annum, implying an underlying expectation of inflation of 5.56% per annum  $\{(1+5.13\%-0.5\%) / (1+2.81\%-1)\}$ .

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**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018	2017
	R	R
<b>15. EMPLOYEE BENEFIT LIABILITIES (Continued)</b>		
<u>Net discount rate:</u>		
It is the relative levels of the discount rate and healthcare inflation to one another that are important, rather than the nominal values. A net discount factor of 1.84% per annum $((1+9.13\%)/(1+5.66\%)-1)$ .		
<u>Post-retirement mortality:</u>		
The post-retirement mortality assumptions are based on the PA(80) mortality tables rated down by 1 year. This assumption is in line with the previous assumptions used.		
<u>Family profile:</u>		
It has been assumed that husbands will be 4 years older than their wives. For current retiree members, actual marital status was used and the potential for remarriage was ignored.		
<u>Sensitivity analysis</u>		
The results of the valuation are dependent on the underlying assumptions made. The assumptions represent our best estimate of future events. The actual cost of the subsidy will however be dependent on the actual experience. The tables below illustrate the likely impact certain changes to the underlying assumptions would have on the results.		
<u>Real rate of return</u>	Current Assumption 9.46%	0.5% decrease in gap (0.04%)      0.5% increase in gap (0.96%)
Liability	2,245,367	2,133,099      2,357,635
Cost / (Saving)	-	112,268      (112,268)
 Mortality	 Current Assumption PA(80)-1	 PA(80)      PA(80)-2
Liability	2,245,367	2,141,407      2,349,327
Cost / (Saving)	-	103,960      (103,960)
The amounts recognised in the Statement of Financial Position are as follows:		
Balance at the beginning of the year		2,264,472      1,338,307
Net actuarial (losses)/profits		-25,230      942,887
Interest cost		190,717      108,786
Benefits paid		(184,682)      (126,506)
Total Recognised Benefit Liability		<u>2,245,367      2,264,472</u>
The amounts recognised in the Statement of Financial Performance are as follows:		
Interest cost		190,717      108,786
Actuarial losses / (gains)		-25,230      942,887
Total Post-retirement Benefit Included In Employee Related Costs (Note 23)		<u>165,487      1,051,673</u>
	2018	2017
	R	R
Obligation	<u>2,245,367</u>	<u>2,264,472</u>
Deficit	<u>2,245,367</u>	<u>2,264,472</u>
	2016	2015
	R	R
Obligation	<u>1,338,307</u>	<u>1,691,311</u>
Deficit	<u>1,338,307</u>	<u>1,691,311</u>
In accordance with the transitional provisions for the amendments to GRAP 25 Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2009 reporting period.		
<b>15.2 Post-retirement Long Service Awards Liability</b>		
Balance at beginning of Year	1,666,208	1,545,876
Actuarial Gain	238,888	(90,513)
Increase due to Discounting	131,364	123,280
Benefits paid	(143,981)	(135,851)
Current service cost	<u>183,713</u>	<u>223,416</u>
Balance at end of Year	2,076,192	1,666,208
Transfer to Current Provisions	<u>(411,480)</u>	<u>(143,981)</u>
Total Post-retirement Long Service Awards Liability	<u>1,664,712</u>	<u>1,522,227</u>
The assumptions used are based on statistics and market data as at 30 June 2016. The following valuation assumptions are consistent with the requirements of GRAP 25.		
Discount rate	8.70%	8.24%
General Inflation	5.37%	5.06%
Salary Inflation	6.37%	6.06%
Real rate (Gap)	2.19%	2.07%
<u>Discount rate Assumption</u>		
The discount rate required by GRAP 25 should be set with reference to a high quality corporate bond. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the liabilities should be used. A discount rate of 8.07% per annum has been used. This is derived by using the Bond Exchange Zero Coupon Yield Curve. The corresponding liability weighted index-linked yield is 2.69%. These rates do not reflect any adjustment for taxation. These rates were deduced from the yield curve obtained from the Bond Exchange of South Africa after the market close on 30 June 2018.		
<u>Future Inflation Assumption</u>		
This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement. It is important in that the LSA are based on an employee salary at the date of award. General salary inflation in most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation. Thus a general salary inflation of 6.37% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. The assumption reflects a net discount rate of 2.19%. It has been assumed that the next salary increase will take place on 1 July 2018.		
<u>Net Discount Rate</u>		
It is the relative levels of the discount rate and salary inflation to one another that are important, rather than the nominal values. We have thus assumed a net discount factor of 2.19% per annum $((1+8.70\%)/(1+6.37\%)-1)$ .		

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**Sensitivity analysis**

The results of the valuation are dependent on the underlying assumptions made. The assumptions represent our best estimate of future experience. The actual cost of the subsidy will however be dependent on the actual experience.

**Discount rate**

	<u>Current Assumption</u> <u>8.24%</u>	<u>Decrease of</u> <u>0.5%: 7.38%</u>	<u>Increase of</u> <u>0.5%: 8.38%</u>
Liability	2,076,192	1,972,382	2,160,002
Cost / (Saving)	-	103,810	(103,810)

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**15. EMPLOYEE BENEFIT LIABILITIES (Continued)**

		2018 R	2017 R
<b>Retirement</b>	<b>Current Assumption</b>		
	<b>Retire at average age 60</b>	<b>Retire at average age</b>	<b>Retire at average age 57</b>
Liability			
Cost / (Savings)	2,076,182	1,930,868	2,221,525
		145,333	(145,333)
<b>The amounts recognised in the Statement of Financial Position are as follows:</b>			
Balance at the beginning of the year		1,666,208	1,545,876
Current service costs		163,713	223,416
Interest cost		131,964	123,280
Benefits paid		(143,981)	(135,651)
Actuarial (losses) / gains		238,888	(80,513)
<b>Total Recognised Benefit Liability</b>		<b>2,076,182</b>	<b>1,666,208</b>
<b>The amounts recognised in the Statement of Financial Performance are as follows:</b>			
Current service cost		163,713	223,416
Interest cost		131,964	123,280
Actuarial (losses) / gains		238,888	(80,513)
<b>Total Long service award included in Employee Related Costs (Note 23)</b>		<b>563,965</b>	<b>256,183</b>

The history of experienced adjustments is as follows:

	2018 R	2017 R	2016 R	2015 R
Obligation	2,076,182	1,666,208	1,545,876	1,387,060
Deficit	2,076,182	1,666,208	1,545,876	1,387,050

In accordance with the transitional provisions for the amendments to GRAP 25.136 (m)(R) & (n), Employee Benefits in December 2004, the disclosures above are determined prospectively from the 2008 reporting period.

The municipality operates an unfunded defined benefit plan for all its employees. Under the plan a long-service award is payable after 5 years of continuous service and every 5 years thereafter to employees. The provision is an estimate of the long service based on historical staff turnover. No other long-service benefits are payable to employees.

Actuarial valuations are performed annually. The most recent valuations of the present value of the defined benefit obligation was carried out at 30 June 2018 by DT Muremwa & TG Mhonde for One Panagos Financial consulting, a member of the Actuarial Society of South Africa.

The defined benefit obligation and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

**16. NON-CURRENT PROVISIONS**

**Reconciliation of non-current provisions**

**Environmental rehabilitation**

Opening Balances	1,335,532	1,274,000
Increase in provision due to discounting	57,857	61,531
<b>Total Non-Current Provision</b>	<b>1,393,389</b>	<b>1,335,532</b>

**Assumptions for landfill site provision**

The most critical assumptions for estimating the life expectancy and rehabilitation costs of a landfill are:

- Available permitted airspace (typically expressed in cubic metres (m<sup>3</sup>). The sites will ultimately be used from one side of the fence to the other along the sites' perimeter. However, the final land use has not been determined for all these sites which would indicate the height that is useful for the sites hence the report assumes that, for the sake of calculations, the height of the sites will be between 3 and 5 meters from the lowest level reached by the waste.

- Airspace utilization factor commonly referred to as the in-place waste density (typically expressed as tons of waste placed per cubic meter of airspace consumed (tons/m<sup>3</sup>). The average density of the waste is between 0.75 T/m<sup>3</sup> to 1.20 T/m<sup>3</sup>, depending on waste type and compaction efficiency, as prescribed by DWAF Minimum Requirements for Waste Disposal by Landfill (Second Edition, 1998). In this report it has been assumed that it is 0.75T/m.

- Waste acceptance rate (typically expressed in tons per year (tpy). Daily deposition of waste is about 10 Tons/per day (estimates given by municipal staff and there were no proper records kept).

- The sites listed below, have been in existence for the reporting period:

Kareedouw  
Joubertina  
Kraakrivier  
Louerwater  
Coldstream  
Woodlands  
Clerks

- the methodology prescribed by DWAF assumes that landfilling is done instead of waste dumping.

**17. ACCUMULATED SURPLUSES**

The Accumulated Surplus consists of the following Internal Funds and Reserves:

Accumulated Surplus / (Deficit) due to the results of Operations	325,741,521	303,563,464
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**18. PROPERTY RATES**

**Rates received**

Residential	3,045,021	3,540,166
Commercial	3,107,782	4,008,195

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

Agriculture!  
 Medical  
 Government  
 Schools

2018	2017
R	R
3,550,924	3,864,386
-	8,978
5,014,954	4,732,051
<u>108,541</u>	<u>102,357</u>
<u>15,727,232</u>	<u>16,256,133</u>

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**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>18 PROPERTY RATES (continued)</b>		
Valuations		
Residential	1,175,882,230	1,175,882,230
Commercial	243,692,000	243,692,000
State	419,777,000	419,777,000
Agriculture	1,624,880,200	2,018,806,199
Exempted properties	184,655,000	184,655,000
	<u>3,648,886,430</u>	<u>4,042,812,429</u>
<p>Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2016. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions. A 6.0 per cent increase in tariffs has been applied.</p> <p>Medical aid is included in government</p> <p>A general rate of 0.803405 c is applied to property valuations to determine assessment rates. Rebates of 30% are granted to properties where municipality does not provide services</p> <p>Rates are levied on an annual basis, with the option of paying the rates on a monthly basis.</p>		
<b>19 INCOME FROM AGENCY SERVICES</b>		
The following income is generated:		
Driver Licences Fee	1,059,656	1,183,184
Motor Vehicle Licences	1,401,214	892,648
Roadworthy certificates	29,197	108,216
Fire Services	2,655,000	3,599,000
	<u>5,145,267</u>	<u>5,783,048</u>
<b>20 GOVERNMENT GRANTS AND SUBSIDIES RECOGNISED</b>		
National Equitable Share	42,375,000	38,957,915
Financial Management Grant (FMG)	1,900,000	1,825,000
EPWP	1,000,000	1,000,000
Sarah Baartman District Municipality: Environmental Health Subsidy	910,313	982,826
Sarah Baartman District Municipality	491,916	-
PMU- Expenditure Accounted for	724,900	734,700
DSRAC	792,826	866,968
MIG Grant	19,634,386	11,458,829
Local Government: Cacadu District Municipality	-	8,000
Provincial: Department of Housing Grant	145,107	2,045,234
National: DWAF	364,788	4,349,434
Department of Energy (INEP)	2,845,690	142,875
Provincial: Public works	-	2,138,829
National Treasury	7,148,623	-
Drought Relief Grant	769,999	-
Total Government Grants and Subsidies	<u>79,103,641</u>	<u>64,490,510</u>
<p><b>National: Equitable Share</b></p> <p>In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. All registered indigents receive a monthly subsidy based on monthly billing, towards the consumer account, which is determined annually by council. All residential households receive 6kl water and some poor areas 50kWh electricity free every month.</p>		
<b>Financial Management Grant (FMG)</b>		
Balance unspent at beginning of year	-	-
Current year receipts	1,900,000	1,825,000
Conditions met - transferred to Revenue	(1,900,000)	(1,825,000)
Balance at the end of the year	<u>-</u>	<u>-</u>
<p>The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial management reforms required by the Municipal Finance Management Act (MFMA), 2003.</p>		
<b>Local Government: Cacadu District Municipality</b>		
Balance unspent at beginning of year	434,619	442,619
Current year receipts	40,000	-
Transferred to Revenue	(474,619)	(8,000)
Other Adjustments/Refunds	-	-
Balance at the end of the year	<u>0</u>	<u>434,619</u>
<p>Grant purpose: To provide funding to support the strategic planning and IDP functions within the municipality.</p>		
<b>Provincial: LED</b>		
Balance unspent at beginning of year	-	(883)
Current year receipts	-	-
Transferred to Revenue	-	883
Balance at the end of the year	<u>-</u>	<u>-</u>
<p>Grant purpose: To provide funding for the employment of a LED assistant to assist with LED programmes within the municipality.</p>		
<b>PMU- Expenditure Accounted for</b>		
Balance unspent at beginning of year	-	-
Current year receipts recognised	724,900	734,700
Transferred to Revenue	(724,900)	(734,700)
Balance at the end of the year	<u>-</u>	<u>-</u>
<b>Sarah Baartman District Municipality: Environmental Health Subsidy</b>		
Balance unspent at beginning of year	-	-
Current year receipts	910,313	982,826
Transferred to Revenue	(910,313)	(982,826)
Balance at the end of the year	<u>-</u>	<u>-</u>
<p>Purpose of the subsidy: To provide environmental services on behalf of Sarah Baartman District Municipality.</p>		
<b>National - Department of Water Affairs Grant</b>		
Balance unspent at beginning of year	364,788	288,704

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018	2017
	R	R
Current year receipts		4,425,528
Transferred to Revenue	(364,798)	(4,349,434)
Balance at the end of the year	<u>-</u>	<u>364,798</u>

Grant purpose: The purpose of the grant is for the purchasing of water quality monitoring equipment.



**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>20 GOVERNMENT GRANTS AND SUBSIDIES RECEIVED (continued)</b>		
<b>DSRAC Library Subsidy</b>		
Balance unspent at beginning of year	427,507	362,475
Current year receipts	932,000	932,000
Transferred to Revenue	(792,826)	(866,968)
Balance at the end of the year	<u>666,681</u>	<u>427,507</u>
Grant purpose: The purpose of the grant is a subsidy for library services in the Kou-kamma district. The subsidy covers salaries, operation and maintenance costs.		
<b>MIG Grant</b>		
Balance unspent at beginning of year	(874,132)	(374,803)
Current year receipts	18,867,100	10,959,300
Transferred to Revenue	(19,634,385)	(11,458,629)
Other Adjustments/Refunds		
Balance at the end of the year	<u>(1,641,417)</u>	<u>(874,132)</u>
Grant purpose: The purpose of the M/G grant is to provide capital funding for the upgrading, maintenance of the municipal infrastructure in order to provide basic services to the community.		
<b>Department of Energy (INEP)</b>		
Balance unspent at beginning of year	0	176,772
Current year receipts	3,000,000	-
Transferred to Revenue	(2,845,890)	(142,875)
Other Adjustments		(33,897)
Balance at the end of the year	<u>154,110</u>	<u>0</u>
Grant Purpose: The purpose of the grant is to implement the Integrated National Electrification Programme (INEP) by providing capital subsidies to municipalities to address the electrification backlog of occupied residential dwellings, and the installation of bulk infrastructure.		
<b>Housing rectification</b>		
Balance unspent at beginning of year	636,347	1,580,780
Current year receipts	610,118	1,090,781
Transferred to Revenue	(146,107)	(2,045,234)
Balance at the end of the year	<u>1,101,358</u>	<u>636,347</u>
Grant purpose: To provide funding for the creation of sustainable RDP houses.		
<b>National Treasury</b>		
Balance unspent at beginning of year	-	-
Current year receipts	7,148,523	-
Transferred to Revenue	(7,148,523)	-
Balance at the end of the year	<u>-</u>	<u>-</u>
Grant purpose: To assist with the payment of Audit fees		
<b>Public Works: Drought Relief Funding</b>		
Balance unspent at beginning of year	-	-
Current year receipts	(770,000)	-
Transferred to Revenue	769,998	-
Balance at the end of the year	<u>(1)</u>	<u>-</u>
Grant purpose: To assist municipalities with drought relief measures		
<b>Department of Roads and Public Works</b>		
Balance unspent at beginning of year	(643,829)	-
Current year receipts		1,494,900
Transferred to Revenue	643,829	(2,138,829)
Balance at the end of the year	<u>-</u>	<u>(643,829)</u>
Grant purpose: Paving of various roads within the municipal boundaries		
<b>EPWP</b>		
Balance unspent at beginning of year	-	-
Current year receipts	1,000,000	1,000,000
Transferred to Revenue	(1,000,000)	(1,000,000)
Balance at the end of the year	<u>-</u>	<u>-</u>
Grant purpose: To provide employment to improve the quality of life of unemployed people through the appointment of them to do labour intensive projects for example: Road Maintenance and the maintenance of buildings; Maintenance of social infrastructure; Beautification and cleansing of the municipal areas.		
<b>21 SERVICE CHARGES</b>		
Sale of Electricity	1,814,094	2,033,461
Sale of Water	12,216,311	11,785,315
Refuse Removal	2,481,168	4,092,211
Sewerage and Sanitation Charges	8,699,781	8,580,261
Total Service Charges	<u>25,211,323</u>	<u>26,471,237</u>
Attributable to:		
Continuing Operations	<u>25,211,323</u>	<u>26,471,237</u>
	<u>25,211,323</u>	<u>26,471,237</u>
The amounts disclosed above for revenue from Service Charges are in respect of services rendered which are billed to the consumers on a monthly basis according to approved tariffs.		
<b>22 RENTAL OF FACILITIES AND EQUIPMENT</b>		
Operating Lease Rental Revenue:		
Premises	-	160,810
Halls	140,683	88,878

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

Houses  
**Facilities and equipment**  
 Rental of equipment  
 Rental other  
**Total Rental of Facilities and Equipment**  
 Attributable to:  
     Continuing Operations

2018	2017
R	R
199,013	128,940
<u>333,697</u>	<u>379,728</u>
-	-
<u>333,697</u>	<u>379,728</u>
333,697	379,728
<u>333,697</u>	<u>379,728</u>

Rents' revenue earned on Facilities and Equipment is in respect of Non-financial Assets rented out.

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>23 INTEREST EARNED</b>		
External Investments:		
Bank Account	147,782	8,098
Short-term deposits	65,748	64,408
Total Interest Earned	213,530	72,506
Outstanding Debtors:		
Debtors	11,358,946	9,188,128
Total Interest Earned Outstanding Debtors	11,358,946	9,188,128
Total	11,572,476	9,260,634
<b>24 OTHER REVENUE</b>		
Connection fees	221,488	50,738
Valuation certificates	10,755	13,836
Building plan fees	229,460	88,216
Land use application fees	32,063	16,822
Information fees	39,607	50,963
Cemetery fees	72,852	79,038
Sundry other fees	327,987	3,367,446
Total Other Revenue	934,212	3,667,029
Attributable to:		
Continuing Operations	934,212	3,667,029
	934,212	3,667,029
The amounts disclosed above for Other Revenue are in respect of services, other than described in Notes 19 to 21, rendered which are billed to or paid for by the users as the services are required according to approved tariffs.		
<b>25 EMPLOYEE RELATED COSTS</b>		
Employee Related Costs - Salaries and Wages	27,311,763	25,922,296
Employee Related Costs - Contributions to UIF, Pensions and Medical Aids	6,257,223	6,024,142
Travel, Motor Car, Accommodation, Subsistence and Other Allowances	2,373,741	2,896,580
Housing Benefits and Allowances	197,280	182,000
Overtime Payments	2,501,387	1,880,357
Long-service awards	56,793	70,058
Total Employee Related Costs	38,677,157	36,975,432
Attributable to:		
Continuing Operations	38,677,157	36,975,432
	38,677,157	36,975,432
Included in Employee Related Costs is an amount of R2 245 367 (2017: R 2 264 472) paid by the municipality to Defined Contribution Plans at rates specified by the rules of the plans. For the financial period ending 30 June 2018, contributions due in respect of the 2017/18 reporting period has been accounted for and paid over to the plans accordingly.		
<b>Remuneration of Section 57 Employees:</b>		
<b>Remuneration of the Municipal Manager (Kate P.M) Appointed 11 April 2017</b>		
Annual Remuneration	935,682	204,179
Car and Other Allowances	240,108	7,674
Company Contributions to UIF, Medical and Pension Funds	12,703	2,865
Total	1,188,493	214,618
The Municipal Manager Mr Kate P.M. was appointed 11 April 2017		
<b>Remuneration of the Municipal Manager (Nkuhlu S.) Resigned 23 January 2017</b>		
Annual Remuneration		532,768
Termination leave		217,368
Car and Other Allowances		173,866
Company Contributions to UIF, Medical and Pension Funds		10,290
Total	-	934,292
The Municipal Manager Mr Nkuhlu. S resigned 23 January 2017		
<b>Remuneration of the Chief Financial Officer (Venter N.) Contract ended 31 November 2016. Re-appointed 27 January 2017</b>		
Annual Remuneration	801,771	677,999
Termination leave	-	173,962
Car and Other Allowances	144,000	116,000
Company Contributions to UIF, Medical and Pension Funds	10,832	10,835
Total	956,603	978,896
The contract of the Chief Financial Officer Ms Venter N. ended 31 November 2016. The contract was renewed, appointed date 27 January 2017		
<b>Remuneration of the Manager: Corporate Services (Tom T.)</b>		
Annual Remuneration	360,065	
Car and Other Allowances	215,222	
Company Contributions to UIF, Medical and Pension Funds	6,569	
Total	581,856	-
The Manager: Corporate Services Ms Tom T. was appointed 1 December 2017		
<b>Remuneration of the Manager: Corporate Services (Zenzile M.)</b>		
Annual Remuneration	83,683	
Car and Other Allowances	-	
Company Contributions to UIF, Medical and Pension Funds	634	
Total	84,317	-
The Manager: Corporate Services Mr Zenzile was appointed for the month of October 2017 only		

**KOU-KAMMA MUNICIPALITY**  
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	2018 R	2017 R
<b>Remuneration of the Manager: Technical Services (Kwababana O.)</b>		
Annual Remuneration	161,628	385,803
Termination leave	119,092	-
Performance Bonus 2014/15	-	-
Car and Other Allowances	240,325	576,780
Company Contributions to UIF, Medical and Pension Funds	5,492	10,383
<b>Total</b>	<u>526,537</u>	<u>973,066</u>

The Manager : Technical Services Ms Kwababana O. resigned 30 November 2017. The post remain vacant.

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>25 EMPLOYEE RELATED COSTS (continued)</b>		
Remuneration of the Manager: Strategic Services (Mpumhwana M)		
Annual Remuneration		339,539
Termination leave		173,962
Car and Other Allowances		145,200
Company Contributions to UIF, Medical and Pension Funds		7,448
<b>Total</b>		<b>666,150</b>
The contract of the Manager : Strategic Services Mr Mpumhwana M ended 31 December 2016. The post remain vacant.	-	666,150
Remuneration of the Manager: Community Services (Sompani T)		
Annual Remuneration	192,341	723,607
Termination Leave	184,400	-
Car and Other Allowances	59,768	377,648
Company Contributions to UIF, Medical and Pension Funds	4,883	12,605
<b>Total</b>	<b>441,393</b>	<b>1,113,860</b>
The contract of the Manager : Community Services Mr Sompani T. ended 30 September 2017. The post remain vacant.		
Employee costs	38,677,157	36,975,432
Employee related costs	3,778,511	4,580,681
Directors	42,455,667	41,856,114
<b>26 REMUNERATION OF COUNCILLORS</b>		
Mayor		
Councillors	615,251	711,400
Councillors' allowances	1,888,778	1,680,187
<b>Total Councillors' Remuneration</b>	<b>2,504,029</b>	<b>2,391,587</b>
Councillors' remuneration		
Bernardia, P	139,851	220,753
Goliath, G.G.M.	279,348	220,753
Goni P	-	27,727
Herman F.E.	279,201	220,673
Jacobs S	-	26,937
Jansen J.	36,724	-
Jantjies B	-	27,727
Krige J	279,348	245,743
Le Roux Y.C.	69,825	220,753
Nelson L	-	27,743
Plaatjies J.	279,201	220,673
Pottie N	-	27,727
Pullen H.P.	280,593	220,673
Rheaders C	182,010	27,673
Strydom F	279,348	245,743
Smit K	280,657	245,743
Yake F.J.	280,695	220,753
<b>In-kind Benefits</b>	<b>2,691,498</b>	<b>2,447,795</b>
The Executive Mayor is full-time and is provided with an office and secretarial support at the cost of the Council.		
The councillor salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution		
<b>27 DEPRECIATION AND AMORTISATION</b>		
Depreciation: Property, Plant and Equipment	17,447,463	22,887,070
Amortisation: Intangible Assets	428,716	112,348
Depreciation: Investment Property	628,991	27,087
<b>Total Depreciation and Amortisation</b>	<b>18,505,169</b>	<b>23,026,505</b>
Attributable to:		
Continuing Operations	18,505,169	23,026,505
<b>28 FINANCE COSTS</b>		
Other interest paid	-	190,099
Suppliers	876,183	1,536,157
Finance Charges	95,259	238,099
Creditors Overdue	1,071,441	1,981,355
Attributable to:		
Continuing Operations	1,071,441	1,981,355
<b>29 BULK PURCHASES</b>		
Electricity	3,372,836	3,477,475
Water	-10,454	36,002
<b>Total Bulk Purchases</b>	<b>3,362,382</b>	<b>3,513,477</b>
<b>30 CONTRACTED SERVICES</b>		
Professional Fees	522,688	257,122
Security Services	877,770	470,326
General contract expenses	3,383,683	2,007,032
<b>Total Contracted Services</b>	<b>4,784,120</b>	<b>2,734,480</b>
Attributable to:		
Continuing Operations	4,784,120	2,734,480
Discontinued Operations		

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

2018	2017
R	R
<u>4,794,120</u>	<u>2,734,480</u>

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>31 GRANTS AND SUBSIDIES PAID</b>		
Low income subsidy/ Free basic services	8,088,228	12,072,613
Community projects	-	4,626,759
<b>Total Grants and Subsidies</b>	<b>8,088,228</b>	<b>16,702,372</b>
The low income subsidy/ free basic services is in respect of providing basic service levels.		
Community Projects are in respect of community cultural programs and catering & transport cost of community development workers within the municipality's area of jurisdiction.		
The Mayor makes subsidies available on application after consultation with the Municipal Manager on the merits of such an application.		
<b>32 GENERAL EXPENSES</b>		
Included in General Expenses are the following:		
Advertising	456,772	270,571
Audit Fees - External	3,086,371	2,477,155
Bank Charges	346,856	319,175
Cleaning	46,195	64,259
Conferences and delegations	-	-
Consumables	1,801,667	1,358,175
Electricity purchases	3,518,840	3,922,536
Refreshments	30,140	49,114
Fuel and oil	1,128,014	1,261,326
Insurance	213,220	497,778
Legal expenses	229,495	935,518
Licence cards & fees - vehicles	180,336	225,921
Medical tests	-	-
Other expenses	1,449,447	27,951
Other rentals	-	220,067
Postage	-	24,079
Printing and stationery	396,505	382,054
Rental of office equipment	697,117	483,113
SPJ programs	32,445	56,404
Subscription and publications	-	24,124
Telephone cost	1,364,500	1,585,886
Training	108,516	61,729
Materials and stores	-	436,694
Travel and subsistence	948,404	675,817
SALGA	11,950	101,950
<b>Total General Expenses</b>	<b>15,046,789</b>	<b>15,481,608</b>
<b>33 REPAIRS AND MAINTENANCE</b>		
Contracted services	1,792,512	-
Materials and stores	-	-
Other expenditure	-	-
	<b>1,792,512</b>	<b>-</b>
Repairs and Maintenance is disclosed separately in accordance with mSCOA. Comparatives for prior year is not required		
<b>34 CASH GENERATED BY OPERATIONS</b>		
(Deficit) / Surplus for the Year	16,376,456	2,772,205
<b>Adjustment for:</b>		
Depreciation and Amortisation	18,505,169	23,026,505
Losses / (Gains) on Disposal of Property, Plant and Equipment	22,858	-334,264
Movements in retirement benefit assets and liabilities	143,809	61,531
Movements in provisions	103,117	248,705
<b>Changes in working capital:</b>		
(Increase) / Decrease in Inventories	-141,610	267,860
(Increase) / Decrease in receivables from exchange transactions	-2,059,891	236,898
(Increase) / Decrease in other receivables from non-exchange transactions	-5,097,935	-7,958,340
Increase / (Decrease) in payables from exchange transactions	11,080,780	2,951,025
Increase / (Decrease) in VAT Receivable	-1,201,481	-5,582,570
Increase / (Decrease) in unspent conditional grants and receipts	-41,120	-998,090
<b>Cash generated by / (utilised in) Operations</b>	<b>15,548,692</b>	<b>14,681,466</b>
<b>35 UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE</b>		
<b>35.1 Unauthorised Expenditure</b>		
Opening balance	1,814,771	0
Prior year approval (rescinded by council)	-1,814,771	-
2017/18 Unauthorised expenditure	16,125,928	1,814,771
Unauthorised expenditure : Capital Budget	-	-
	<b>-16,125,927</b>	<b>1,814,771</b>
<b>35.2 Fruitless and Wasteful Expenditure</b>		
Reconciliation of Fruitless and Wasteful expenditure:		
Opening balance	3,998,283	2,103,460
Fruitless and Wasteful Expenditure current year	976,183	1,894,803
	<b>4,974,466</b>	<b>3,998,263</b>
<b>35.3 Irregular Expenditure</b>		
Opening balance	97,376,365	78,423,110
Bridging of the supply chain policy	37,436,616	18,853,255
	<b>134,812,981</b>	<b>97,276,365</b>
Irregular expenditure to be reported to National Treasury as prescribed by section 170 of the MFMA		
<b>R</b>		
2017/18 Financial year	37,436,616	
2016/17 Financial year	97,376,365	
<b>Total</b>	<b>134,812,981</b>	

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

2018	2017
R	R

Irregular expenditure of R37 436 816 (2016/17: R16 908 021); (2015/16: R4 677 474); (2014/15: R15 851 321), relates to an exception raised by the Auditor-General that all tenders awarded of which a senior SCM official was not part of the BAC should be declared as irregular expenditure. As a result of this, the Auditor-General ruled that the two prior years be treated the same, although already audited and accepted in those respective audits. At all BAC due to limited staff complement, the CFO is the chairperson of the BAC and was regarded as the senior overseeing the SCM department.



**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>36 CORRECTION OF PRIOR PERIOD ERROR</b>		
The correction of the errors / change in accounting policies resulted in adjustments as follows:		
<b>36.1 Property Plant and Equipment</b>		
Correction of Depreciation		
Adjustment against retained earnings 30 June 2017		15,810,468
Adjustments affecting the statement of financial position		<u>-15,810,468</u>
Decrease in Accumulated Depreciation		<u>-</u>
<b>36.2 Intangible assets</b>		
Adjustment against retained earnings 30 June 2017		22,398
Adjustments affecting the statement of financial position		<u>-22,398</u>
Decrease in Accumulated Depreciation		<u>-</u>
<b>36.3 Investment Property</b>		
Adjustment against retained earnings 30 June 2017		-69,868
Adjustments affecting the statement of financial position		<u>69,868</u>
Decrease in Accumulated Depreciation		<u>-</u>
<b>36.4 Property Plant and Equipment</b>		
Correction of Cost Price		
Adjustment against retained earnings 30 June 2017		-1,268,167
Adjustments affecting the statement of financial position		<u>1,268,167</u>
Decrease in Purchase price		<u>-</u>
<b>36.5 Investment Property</b>		
Adjustment against retained earnings 30 June 2017		-138,654
Adjustments affecting the statement of financial position		<u>138,654</u>
Decrease in Purchase price		<u>-</u>
<b>36.6 Property Plant and Equipment</b>		
Correction of Depreciation		
Adjustment against statement of financial performance		-5,467,896
Adjustments affecting the statement of financial position		<u>5,467,896</u>
Decrease in Accumulated Depreciation		<u>-</u>
<b>36.7 Investment Property</b>		
Correction of Depreciation		
Adjustment against statement of financial performance		-8,204
Adjustments affecting the statement of financial position		<u>8,204</u>
Decrease in Accumulated Depreciation		<u>-</u>
<b>36.8 Intangible assets</b>		
Correction of Depreciation		
Adjustment against statement of financial performance		-57,288
Adjustments affecting the statement of financial position		<u>57,288</u>
Decrease in Accumulated Depreciation		<u>-</u>
<b>36.9 Trade Payables</b>		
Correction of creditors		
Adjustment against statement of financial performance		-881,970
Adjustments affecting the statement of financial position		<u>881,970</u>
Decrease in creditors		<u>-</u>
<b>36.10 Trade Payables</b>		
Correction of creditors		
Adjustment against retained earnings 30 June 2017		1,406,541
Adjustments affecting the statement of financial position		<u>-1,406,541</u>
Decrease in creditors		<u>-</u>
<b>37 Material losses</b>		
Distribution losses on electricity	1,074,232	1,393,897
Distribution losses on water	<u>6,687,684</u>	<u>10,984,126</u>
	<u>7,761,916</u>	<u>12,378,023</u>
<b>Accounted water losses :</b>		
Volume Distributed (kl)	Litres per annum	Litres per annum
Volume Billed(kl)	1,181,505	1,361,715
Non-Revenue Water (kl)	<u>-747,435</u>	<u>-536,173</u>
Methodology used	<u>444,070</u>	<u>825,542</u>
The water loss calculations were based on the readings of the bulk water meters on the main line feeding into the distribution systems from the reservoirs and then the end users meters.		
In determining the water loss the following were considered:		
The methodology is based on the logic/ Intellect or arithmetic principle that a product metered at initial point of the sealed pipeline will be equal to the amount of product metered at the end of the same pipeline		
On that case, the volume of water from reservoir metered on the outlet pipe A distributing to point B, C and D is expected to be equals to the sum of water metered at points B, C and D. The difference is therefore considered a loss as it is not been accounted for.		
In the absence of meters at point B, C and D, the total volume of water distributed at point A (Reservoir outlet) is considered water loss as it is not accounted for on the distribution mains.		
The value of water is based on the expenditure incurred in relation to the volume of water purified from all systems inclusive of bulk water purchases for the entire financial year.		
Such information is used to determine the value of water per specific volume. The determined total amount of water unaccounted for is then converted in to rand value based.		
<b>38 Audit fees</b>		
Opening balance	7,614,503	7,380,612
Current year audit fee	3,518,704	2,623,957
Current year Interest	703,987	737,432
Interest paid	-	-
Write-off	-10,576,985	-3,327,797
Amount paid - previous years	<u>-30,000</u>	

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

2018	2017
R	R
<u>1,227,210</u>	<u>7,614,503</u>

The balance unpaid represents the audit fees that could not be paid due to financial constraints endured by the municipality.

**39 PAYE and UIF**

Current year payroll deductions  
Amount paid - current year

6,397,650	6,600,436
<u>-4,833,320</u>	<u>-6,068,927</u>
<u>1,564,330</u>	<u>530,478</u>

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**40 Pension and medical aid deductions**

Current year payroll deductions and Council contributions  
Amount paid - current year

2018 R	2017 R
9,082,059	8,454,509
-8,311,768	-8,754,427
<b>770,291</b>	<b>-299,918</b>

**41 COMMITMENTS FOR EXPENDITURE**

**41.1 Capital Commitments**

The municipality had the following capital commitments at year-end.

Commitments in respect of Capital Expenditure:

- Approved and Contracted for:-

Infrastructure  
Community  
Other

2018 R	2017 R
1,184,551	7,251,285
-	-
-	-
<b>1,184,551</b>	<b>7,251,285</b>

Total Capital Commitments

This expenditure will be financed from:  
Government Grants

2018 R	2017 R
1,184,551	7,251,285
<b>1,184,551</b>	<b>7,251,285</b>

**41.2 Lease Commitments - Amounts payable under Operating Leases**

At the Reporting Date the municipality had outstanding commitments under Non-cancelable Operating Leases for Property, Plant and Equipment, which fall due as follows:

Operating leases - Municipality as lessee (expense)

Minimum lease payments due

- within one year  
- in second to fifth year inclusive  
- later than five years

2018 R	2017 R
179,468	636,502
14,288	219,809
-	370
<b>193,756</b>	<b>856,681</b>

The Municipality has leased portion 250 of Kraaekrivers no. 314 to Strydom Vrugteboerdery for R3,500 per annum with an escalation of 10%. The lease is for an indefinite period.

The municipality has entered into a lease agreement with Telkom to rent the ISDN 3C PRA for a period of 5 years at R2857.58 per month.

The municipality has entered into a lease agreement with Telkom to rent the TI-DIS Gold Access Service for a period of 3 years at R11 195.80 per month.

The Municipality entered into a lease with Wian de Jager for the use of Port 19 of Farm Melkhoudbos 254, Hendorp district as a refuse dumpsite. The lease is for a period of three years at a monthly rental of R25 000 escalating at the higher of 7% or CPI at the anniversary of the lease.

Operating lease payments represent rentals payable by the municipality for certain of its office equipment.

The municipality has entered into an operating lease agreement with Antemex Equipment CC for the rental of 7 blzhub machines and a binder for a period of three (3) years. The lease period commenced in May 2015.

The following restrictions have been imposed on the municipality in terms of the lease agreements on office equipment:

- (i) The equipment shall remain the property of the lessor;
- (ii) The lessee shall not sell, sublet, lease, assign or delegate any of its rights or obligations on the office equipment; and
- (iii) The equipment shall be returned in good order and condition to the lessor upon termination of the agreement.

Operating leases - Municipality as lessor (income)

Minimum lease payments due

- within one year  
- in second to fifth year inclusive  
- later than five years

2018 R	2017 R
245,801	235,563
762,775	880,521
328,360	451,465
<b>1,336,936</b>	<b>1,567,549</b>

The municipality has entered into a lease agreement with Cell C (Pty) Ltd who is a licensed operator of an electronic communications network. Cell C (Pty) Ltd is leasing a site for the installation of certain infrastructure assets required for the operation of its network. The initial lease period is 9 years and 11 months with two renewal options of 5 years each. There are no contingent rentals and no subleases.

The Municipality has entered into a lease agreement with Vodacom PTY (Pty) Ltd who is a licensed operator of an electronic communications network. Vodacom (Pty) Ltd is leasing a site for the installation of certain infrastructure assets required for the operation of its network. The initial lease period is 9 years and 11 months with two renewal options of 5 years each. There are no contingent rentals and no subleases.

The Municipality has entered into a lease agreement with Vodacom PTY (Pty) Ltd who is a licensed operator of an electronic communications network. Vodacom (Pty) Ltd entered into a lease agreement in order to install antennas and equipment on the building situated at Joubertina. The lease contract expired in 2005.

The Municipality has entered into a lease agreement with Seritech Soc Ltd to hire a portion of certain property situated off R62 in Joubertina and the unimpeded use of the access road for the purpose of site access. Interest rate increases are in line with a published index ("Increases in line with CPI").

The municipality has entered into a lease agreement with Ilitha Crèche for the use of a municipal building at R5 per month, no escalation for 9 years and 11 months.

The municipality has entered into a lease agreement with Karedouw Youth Programme for the use of a municipal building at R60 per month, no escalation for 3 years.

The Municipality has entered into a lease agreement with Atlas Tower Property Limited (MTN) who is a licensed operator of an electronic communications network. MTN (Pty) Ltd is leasing the Erf 77 in Coldstream. The initial lease period is 9 years and 11 months at R10 260 per month.

**42 FINANCIAL INSTRUMENTS**

**Categories of financial instruments**

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

**Financial Assets - 2018**

In accordance with GRAP 104.13 the Financial Assets of the municipality are classified as follows:

Receivables from Exchange Transactions

Receivables from Non-exchange Transactions

At amortised cost	Total
12,862,726	12,862,726
25,145,207	25,145,207

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Cash and Cash Equivalents

2018	2017
R	R
<u>1,484,723</u>	<u>1,484,723</u>
<u>39,492,656</u>	<u>39,492,656</u>

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

	2018 R	2017 R
<b>43 FINANCIAL INSTRUMENTS (continued)</b>		
<b>Financial Liabilities - 2018</b>		
Payables from exchange transactions	23,739,036	23,739,036
Short term loan	-	-
Customer deposits	104,588	104,588
Unspent conditional grants	1,822,150	1,822,150
	<u>25,665,774</u>	<u>25,665,774</u>
<b>Financial Assets - 2017</b>		
Receivables from Exchange Transactions	10,802,836	10,802,836
Receivables from Non-exchange Transactions	20,047,272	20,047,272
Cash and Cash Equivalents	713,695	713,695
	<u>31,563,803</u>	<u>31,563,803</u>
<b>Financial Liabilities - 2017</b>		
in accordance with GRAP 104.13 the Financial Liabilities of the municipality are classified as follows:		
Payables from exchange transactions	37,088,327	37,088,327
Short term loan	835,502	835,502
Customer deposits	104,588	104,588
Unspent conditional grants	1,863,270	1,863,270
	<u>39,891,688</u>	<u>39,891,688</u>

**Risk management**

**Financial risk management**

The Accounting Officer has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's risk management policies are established to identify and analyse the risks faced by the municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the GRAP's mainly apply. Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department Financial Services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by the internal auditors on a continuous basis, and annually by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports periodically to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

Further quantitative disclosures are included throughout these Annual Financial Statements.

**42.1 Significant Risks**

It is the policy of the municipality to disclose information that enables the user of its Annual Financial Statements to evaluate the nature and extent of risks arising from Financial Instruments to which the municipality is exposed on the reporting date.

The municipality has exposure to the following risks from its operations in Financial Instruments:

- Market Risk;
- Liquidity Risk; and
- Credit Risk;

Risks and exposures are disclosed as follows:

**Market Risk**

Market Risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the municipality's income or the value of its holdings in Financial Instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

**Liquidity Risk**

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an on going review of future commitments and credit facilities.

The municipality intends to pay creditors within 30 days.

**Credit Risk**

Credit Risk is the risk of financial loss to the municipality if a customer or counterparty to a Financial Instrument fails to meet its contractual obligations and arises principally from the municipality's receivables from customers and investment securities.

**42.2 Market Risk**

The municipality's activities expose it primarily to the financial risks of changes in interest rates. No formal policy exists to hedge volatilities in the interest rate market.

There has been no change to the municipality's exposure to market risks or the manner in which it manages and measures the risk.

**42.3 Liquidity Risk**

Liquidity Risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its Financial Liabilities that are settled by delivering cash or another financial asset. The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the municipality's reputation.

Liquidity Risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timely basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

**42.4 Foreign Currency Risk Management**

The municipality's activities do not expose it to the financial risks of foreign currency and therefore has no formal policy to hedge volatilities in the interest rate market.

**42.5 Interest Rate Risk Management**

Interest Rate Risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

**2018**  
**R**

**2017**  
**R**

Potential concentrations of interest rate risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

The municipality limits its counterparty exposures from its money market investment operations by only dealing with Absa Bank. No investments with a tenure exceeding twelve months are made.

Consumer Debtors comprise of a large number of ratepayers, dispersed across different industries and geographical areas. Consumer debtors are presented net of a provision for impairment.

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

2018  
R

2017  
R

**42 FINANCIAL INSTRUMENTS (continued)**

In the case of debtors whose accounts become in arrears, it is endeavoured to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection", whichever procedure is applicable in terms of Council's Credit Control and Debt Collection Policy. Consumer Deposits are increased accordingly.

Long-term Receivables and Other Debtors are individually evaluated annually at Reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality is not exposed to credit interest rate risk as the municipality has no borrowings.

The municipality's exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

Interest Rate Sensitivity Analysis

The sensitivity analysis has been determined based on the exposure to interest rates at the Statement of Financial Position date. The analysis is prepared by averaging the amount of the investment at the beginning of the financial year and the amount of the investment at the end of the financial year. A 100 basis point increase or decrease was used, which represents management's assessment of the reasonably possible change in interest rates. The short and long-term financial instruments at year-end with variable interest rates are set out below:

**Cash and Cash Equivalents:**

If interest rates had been 100 basis points higher / lower and all other variables were held constant, the municipality's:

Surplus for the year ended 30 June 2018 has increased by R7 188 912. This is mainly attributable to the municipality's exposure to interest rates on its variable rate investments.

Bank balance held with Absa Bank Limited is R 629 456 (2017: R713 075).

**42.6 Credit Risk Management**

Credit Risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Potential concentrations of credit risk consist mainly of variable rate deposit investments, long-term receivables, consumer debtors, other debtors, bank and cash balances.

Investments/Bank, Cash and Cash Equivalents

The municipality limits its counterparty exposures from its money market investment operations (financial assets that are neither past due nor impaired) by only dealing with Absa Bank. No investments with a tenure exceeding twelve months are made.

Trade and Other Receivables

Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an on going basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality limits this risk exposure in the following ways, in addition to its normal credit control and debt management procedures:

- The application of section 118(3) of the Municipal Systems Act (MSA), which permits the municipality to refuse connection of services whilst any amount remains outstanding from a previous debtor on the same property;
- The consolidation of rates and service accounts, enabling the disconnecting services for the non-payment of any of the individual debts, in terms of section 102 of the MSA;
- The requirement of a deposit for new service connections, serving as guarantee and are reviewed annually;
- Encouraging residents to install water management devices that control water flow to households, and/or prepaid electricity meters.

There were no material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, with exposure spread over a large number of consumers, and is not concentrated in any particular sector or geographical area.

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

Payment of accounts of consumer debtors, who are unable to pay, are renegotiated as an on going customer relationship in response to an adverse change in the circumstances of the customer in terms of the Credit Control and Debt Collection Policy.

Long-term Receivables and Other Debtors are individually evaluated annually at reporting date for impairment or discounting. A report on the various categories of debtors is drafted to substantiate such evaluation and subsequent impairment / discounting, where applicable.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

**Credit risk**

Credit risk consists mainly of cash deposits, cash equivalents and receivables. The municipality only deposits cash with major banks with high quality credit standing.

Financial assets exposed to credit risk at year end were as follows:

Trade and other receivables from exchange transactions	12,862,726	--
Cash and cash equivalents	1,484,723	713,685
	<u>14,347,449</u>	<u>713,685</u>

**43 IN-KIND DONATIONS AND ASSISTANCE**

The municipality received no in-kind donations and assistance during the 2016/17 financial year

**44 CONTINGENT LIABILITIES**

**SAMWU obo Julius & Floors**

Employees instituted legal proceedings against the municipality with regards to changes in working conditions

75% possibility that this matter will be successful. Council will not benefit from any revenue/ refund

236,647

**Tamboer & Others**

These employees are employed by the municipality and are claiming benefits which according to them are due and payable, were stopped.

Officials matter incorporated in this case, outcome per official will vary. The amount is unknown.

531,460

**45 RELATED PARTY TRANSACTIONS**

All Related Party Transactions are conducted at arm's length, unless stated otherwise.

**KOU-KAMMA MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2018**

2018  
R

2017  
R

**45 RELATED PARTY TRANSACTIONS (Continued)**

**45.1 Interest of Related Parties**

Councillors and/or management of the municipality have relationships with the municipality, which is limited to their employment:

Name of Related Person	Designation	
<b>Members of key management</b>		
Municipal Manager	S Nkuhlu	Resigned 23 January 2017
	P.M. Kate	Appointed 11 April 2017
Chief Financial Officer	N Venter	Contract ended 30 November 2016
		Appointed 27 January 2017 on a new contract
Manager: Community Services	TM Sompani	Contract ended 30 September 2017. Post not filled
Manager: Strategic Services	M Mpumwana	Contract ended 31 December 2016. Post not filled
Manager: Technical Services	O Kwababane	Resigned 30 November 2017. Post not filled
Manager: Corporate Services	M. Zenzile	Appointed for the month of October 2017
Manager: Corporate Services	T. Tom	Appointed 1 December 2017
	<b>1 July - 15 August 2016</b>	<b>16 August 2016 - 30 June 2018</b>
Mayor	Vuso M.S.	Vuso MS
Councillors	Goni P.	Bernardie. P
	Jacobs S.	Golieth. G.S.M.
	Jantjes B.	Herman F.E.
	Krige R.	Jansen J.
	Nelson L.	Krige R
	Pottie N.	Le Roux Y.C.
	Reeders C.	Plaasies J.
	Strydom F.	Pullen H.P.
	Smith K.	Reeders C.
		Appointed 20 October 2017
		Smith K
		Strydom F.
		Yake F.J.

Compensation to key management as per note 25

**Loans from Managers**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party to exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other Managers reporting directly to the Municipal Manager.

**46 PRIVATE PUBLIC PARTNERSHIPS**

The municipality was not a party to any Private Public Partnerships during the year under review.

**47 EVENTS AFTER THE REPORTING DATE**

No events having financial implications requiring disclosure occurred subsequent to 30 June 2018

**48 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT**

**48.1 Non-Compliance with the Municipal Finance Management Act**

Instance of non-compliance with the MFMA relate to Irregular, Fruitless and Wasteful Expenditure.

**48.2 Deviation from, and ratification of minor breaches of, the Procurement Processes**

In terms of section 39 of the Municipal Supply Chain Management Regulations approved by the council, any deviation from the Supply Chain Management Policy needs to be approved / condoned by the Municipal Manager, noted by Council and bids where the formal procurement processes could not be followed must be noted in the Annual Financial Statements.

The following deviations from the tender stipulations in terms of the municipality's Supply Chain Management Policy were ratified by the Municipal Manager and reported to Council:

Year 2017/2018

CLASSIFICATION OF DEVIATIONS IN TERMS OF SECTION 36 OF THE SCM REGULATIONS	NUMBER OF INCIDENTS	AMOUNTS
Impractical to obtain three quotations	225	R 2,320,817
Sole provider	15	R 2,018
Not advertised for 7 days	1	R 771,827
Risk appointment not out on tender	1	R 765,702
		<b>R 3,860,363</b>

**49 GOING CONCERN ASSESSMENT**

Management considered the following matters relating to the Going Concern:

There are a number of other events and conditions that individually or collectively may cast significant doubt on the going concern assumption and place the municipality's financial sustainability under threat. These indicators include amongst others:

Certain suppliers only provide services on the cash basis now due to problems receiving payments in the past.

The community is refusing to pay for services due to incorrect accounts, faulty water meters and a delay in receiving statements.

Due to cash flow challenges the municipality is unable to pay creditor within 30 days.

Taking the aforementioned into account, management has prepared the Annual Financial Statements on the Going Concern Basis as it is of the opinion that with the current belt-tightening processes and revenue collection programme, funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business.